S. HRG. 98-542

TO ADMIT CERTAIN PASSENGER VESSELS TO THE COASTWISE TRADE

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S.1197

TO ADMIT CERTAIN PASSENGER VESSELS TO THE COASTWISE TRADE

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TO ADMIT CERTAIN PASSENGER VESSELS TO THE COASTWISE TRADE

THURSDAY, SEPTEMBER 29, 1983

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 3:20 p.m., in room SR-253, Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Peter Friedmann and David Dye, staff counsels and John D. Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. I apologize for the delay. We have now finished consideration of the War Powers Act on the Senate floor. I do not expect to be disturbed here for the balance of the day.

The U.S.-flag passenger cruise industry has been in precipitous decline for almost two decades. Twenty years ago, there were almost two dozen large passenger vessels flying the U.S. flag. Today there are but two large luxury class ships under our flag. At the same time, the cruise ship business has never been better.

The recent study by the Maritime Administration found the number of passengers embarking at U.S. ports grew from 590,000 in 1970 to over 1 million in 1978. In 1978. In 1980, there were almost 50 large cruise ships serving the U.S. market. All but two of them were foreign flag vessels.

Several reasons have been advanced to explain this decline. Chief among these are the high cost of building this type of vessel in U.S. shipyards and the high cost of U.S. crews. These and other equally discouraging assessments have become part of the conventional wisdom attending the decline of not only the cruise ship business but of our entire merchant marine.

S. 1197, the bill before us today, allows two foreign built passenger ships into the coastwise trade of the United States. From time to time, the subcommittee has approved similar waivers for various kinds of vessels. The two luxury class ships now operating under the American flag were brought into the coastwise trade by this method. Even so, the possible addition of these two vessels, the Cunard *Princess* and the Cunard *Countess*, has generated a good deal of debate concerning the sanctity of the Jones Act and the prospects of the American cruise ship industry in general.

We expect to see differences of opinion, strong differences of opinion here today, judging by the prior proceedings on this issue in the House. In fact, I am told that several Members of the House feel strongly enough on this issue to come today to express their views to this subcommittee. We are happy to welcome them here as good friends who are working on the same subject.

Senator Inouye, do you have an opening statement?

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE. Yes; I have a short one.

Mr. Chairman, a cornerstone of U.S. merchant marine policy is the series of cabotage laws which limit in various ways the right to engage in our domestic maritime commerce. The term Jones Act is often use to refer to the entire body of cabotage statutes which are intended to support the national interest in shipyards and their employees; the U.S. coastwise shipping enterprises and their employees, and the general public.

One of these provisions provides that no foreign built vessel may transport passengers between ports in the United States, and it is this restriction that concerns the committee today.

S. 1197 would permit two foreign built, foreign flag, and foreign owned passenger cruise vessels to be reflagged U.S. with Jones Act privileges, if and when they are sold to Cruise America Line, Inc., or its assignees. S. 1197 would provide substantial benefits to both the sellers and purchasers of the vessel. Nevertheless, inasmuch as it requires a significant departure from a cornerstone of our national maritime policy, its justification depends on its ability to further the national interest objectives of the Jones Act, or other overriding national interest objectives.

In the case of S. 1197, the national interest sought to be furthered is the addition of two vessels to our present passenger cruise fleet, which now numbers very few vessels. While this is a very compelling reason, in my judgment, it becomes less so if, for example, the possibility of Cruise America acquiring these vessels and placing them in our domestic trades is remote in time or highly contingent on unresolved financial, legal, or other factors.

When the prospective purchasers of the *S.S. Oceanic Independence* sought similar legislation, I insisted that they appear in a public hearing and satisfy these concerns, so that the committee would have the information necessary to legislate in the national interest. I therefore wish to commend you Mr. Chairman for scheduling this hearing. I think it is very necessary.

Thank you very much.

Senator STEVENS. Thank you, Senator.

[The bill follows:]

[S. 1197, 98th Congress, 1st Session]

A BILL To admit certain passenger vessels to the coastwise trade

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding the provisions of sections 111 and 112 of the Vessel Documentation Act, as amended (46 U.S.C. 65(1), (j)), section 27 of the Merchant Marine Act, 1920, as amended (46 U.S.C. 883) on the date of this Act, and any other provisions of law, the Secretary of the department in which the Coast Guard is operating shall cause the vessels Cunard Princess (ABS numbered 7437321) and Cunard Countess (ABS numbered 7531420), upon the application of

Cruise America Line, Incorporated, or its assignee, to be documented as vessels of the United States upon compliance with all other requirements of law except as modified herein, with privilege of engaging in the coastwise trade.

SEC. 2. For hire carriage in the coastwise trade under this bill is limited to passengers, their accompanying baggage and personal property.

Senator STEVENS. Our first witnesses will be the Members of the House. They have the same schedule problems that we do. I am sure everyone is busy both in and out of Congress now, but I would like to call first Congressman Jack Fields, if he is here. Mario Biaggi, are you here? We will get to you next. Then, is Clay Shaw here? Yes. Nice to see you, Clay. You can all come up together, if you would like.

STATEMENT OF HON. JACK FIELDS, U.S. REPRESENTATIVE FROM TEXAS

Mr. FIELDS. Thank you, Mr. Chairman.

Senator STEVENS. Pardon me. Do you have a statement to make on this, Senator?

Senator GORTON. No.

Senator STEVENS. Please proceed.

Mr. FIELDS. Mr. Chairman, I believe S. 1197 is bad legislation which seeks the right end revitalization of our passenger fleet by the wrong means, reflagging of foreign built vessels. It would set an ominous precedence of exchanging short-term gains for long-term jeopardy to our maritime policy.

I would like for this panel to please consider the facts and the different policy implications. The fact is that an American company, Cruise America Line, Inc., of Fort Lauderdale, Fa., hopes to acquire two British ships now owned by Cunard Lines. Note that this transaction is contingent on enactment of this legislation, a fact meriting very close attention.

The sale of these two ships is not an accomplished fact. On the contrary, if you will look at the record and the contradictions that are contained in that record, let me first of all point to our committee transcript of June 15, when we were told by Mr. Lambert of Cruise America that he did have definite arrangements to purchase these vessels. He told us that on June 15.

On June 23, we received a letter from Cunard, Mr. Ralph Bahna, and the first sentence of that letter states, "Following our recent discussions, we confirm that Cunard is prepared to sell to Cruise America on terms to be mutually agreed on." So we were told on June 15 that there are definite arrangements.

Then we see a letter dated June 23 that says that there are terms yet to be mutually agreed, and I see a conflict, I see a contradiction. We have not seen a contract. As of our markup last week, we were not given any indication that there was anything in writing, and I would suspect if a contract is brought today, that there has to be a conflict with what was presented to us earlier.

To this date, Mr. Lambert has not proven or produced any document that can substantiate his claim that he has a deal with Cunard. In my judgment, this fact is critically important, because if there is no deal, when why is this Congress moving forward with this legislation? I would strongly suggest that the subcommittee find out what type of arrangement Mr. Lambert has obtained, if

any, and what are its terms. No good lawyer would call the June 23 letter an option contract. It is at best a heavily conditioned letter that expresses an interest.

Consider further that this sale is not only controversial here, but it is being challenged in Great Britain, something I think you referred to just a moment ago, Senator Inouye. On June 6, 1983, the Journal of Commerce printed a report about a corporate takeover fight in England in which Cunard's parent company, Trafalgar House, sought to acquire Penninsula and Orient Steamship Navigation Co., P&O, Britain's largest shipping concern, in an unfriendly bid. P&C, the target company, has strenuously resisted the takeover, and the United Kingdom's Monopolies and Merchant Commission is in the process of formally investigating the matter.

In my judgment, the real signficance of the Monopolies Commission inquiry is twofold. First of all, if the Commission prevents Trafalgar House from acquiring P&O, Trafalgar House may decide not to sell the Cunard vessels. The members should note that the Commission can permit, they can prevent, or they can modify the takeover bid, and it can do so directly or indirectly.

The takeover bid is actually a stock swap whereby four shares of Trafalgar House stock are being offered for every three shares of P&O stock. Obviously, then, Trafalgar House's decision to sell the Cunard ships is dependent on how it will affect the value of its stock. This decision may rest on the stock value of converting two losing assets into interest-free cash, or on the stock value of penetrating a new and exclusive market with a new projected revenue stream, or on its capacity to shed some burdensome labor agreements, or on some related ground. We do not know.

The point is that the proposed Cunard deal is involved with a takeover bid of P&O and the Monopolies Commission inquiry. If there is no takeover, there may be no sale.

The second aspect is that Trafalgar House has given an assurance it will not proceed with this takeover proposal until the Monopolies Commission acts, which it is required to do by December 15 of this year. So there is a dynamic in Great Britain that affects this bill, and there is no reason for us to act prematurely. Nevertheless, there are those who believe we should proceed in disregard of events in Great Britain and despite the confusing inconsistencies which have abounded for the last several months.

I will have to say to you, I am confused about some of the facts and some of the things that have been presented to us. I think there are a number of contradictions and a number of questions that have been left unanswered. To those people, I reply, what is the rush? Perhaps a major foreign shipping company wishes to pay for its corporate expansionism from the proceeds of this sale, and hopes to advance this bill while there is a bureaucratic delay in London. I do not think we should risk putting this Congress in the position of banking such a transaction when we can and should take the time to ascertain the truth.

The prudent course, in my view, would be deferral of consideration of this proposal until the United Kingdom's Monopolies and Mergers Commission can conclude its factfinding and make its recommendations to its Secretary of State.

In addition to these concerns, another critical factor is the impact this bill will have or may have on the financing efforts of would-be American cruise ship operators. During the last several months, I have been contacted by a number of American operators who desire to enter the Jones Act trade not by special private legislation but by constructing passenger cruise ships in our shipyards with American labor and American steel.

These businessmen tell me that the admittance of foreign flag passenger vessels to the Jones Act will make it extremely difficult, if not impossible, to finance future American projects. In short, why pay a premium for Jones Act privileges if you can go overseas and legislate your way into the coastal trade? And why, if you are a potential investor, would you get into U.S. shipping once you have read the mandatory antifraud disclosure documents of American operators which tell you and me that lower cost exceptions have been enacted?

It is also interesting to note that Mr. Robert Lambert, the sole beneficiary of this bill, has stated repeatedly that before deciding to purchase their foreign Cunard ships, he pursued the viability of constructing passenger cruise vessels in domestic shipyards. According to Mr. Lambert, Cruise America Line received estimates of $250 million and $400 million and a delivery schedule of 5 to 6 years to construct a vessel comparable to the *Countess* and the *Princess.*

As a result of this assertion, I personally wrote to the 27 major commercial shipyards in this Nation and I received some 21 responses which have been provided to the members of this subcommittee. The conclusions of these 21 were startling. They reaffirmed both the intense desire and the capacity of our shipyard industry for passenger shipwork and flatly contradicted Mr. Lambert's testimony that U.S. shipyards could not do the work at reasonable prices and in a timely manner.

My survey indicates that our shipyards can build a vessel comparable to the *Princess* and *Countess* in about 34 months, not 5 to 6 years, and at a cost of about $166 million. Clearly, then, our shipyards are ready, willing, and able to do this work, and I will say to the chairman, I will be glad to provide the letters that I have received from the different shipyards for this subcommittee if there is an interest.

I want to take just a moment and read a few paragraphs from some of these shipyards. One is from Halter Marine, Inc., in Louisiana, and it says at the bottom of the letter:

> Frankly, Congressman, it is amazing to me that the Congress is considering using foreign vessles whose building was subsidized by their government in U.S. intracoastal trade, trade set aside by Congress for U.S. built vessels. When one considers there are virtually no commerical vessels of this size being built or contemplated being built in U.S. yards, how can such action be justified? In Halter's case, in New Orleans, our employment for the past 12 months has dropped from 2,500 people in July of 1982 to 700 people today. In our view, H.R. 2883—

Of course, the Senate bill has a different number.

> should be defeated in Committee, since it is conceived of ill-founded permises of cost and delivery to do similar work in U.S. yards, and it would be another major possibly fatal blow to the continuing U.S. merchant shipbuilding capability.

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I received another letter from Avondale Shipyards, also in New Orleans, La., a telegram from Frank Lynott Washington that says:

As I have indicated in previous correspondence, TBC opposes H.R. 2883 and like legislation because I strongly believe that American shipyards can provide the management and talent needed to revitalize the national passenger fleet. The granting of Jones Act exceptions for foreign vessels will not only add to the attractiveness of foreign construction and could well result in a decision by Mr. Hadley to take his project overseas.—Signed, Frank Lynott, Chairman.

One last letter from the Norfolk Shipbuilding and Drydock Corp. The last page of the letter:

Notwithstanding your questions, I would like to add that some projects to build American passenger ships are being actively discussed in several companies. One of these companies, of which I am a director, is Cruise International, in Norfolk, Virginia. These projects are a direct result of recent legislation passed by Congress allowing business deductions for conversions of American flag ships and disallowing them on foreign flag ships. The integrity of the Jones Act would be most important in keeping the construction of these vessels in the United States, and the subsequent ability of these vessels to serve a market not available to foreign flag ships.—Signed, John Roper, President of Norfolk Shipbuilding and Drydock Corporation.

Let there be no doubt as to where this legislation takes us in the long term. This bill will grant an exemption to the Jones Act for one corporation to admit two low-cost foreign built vessels to the coastwise trade with freedom to operate wherever they please. To me this is a fundamental violation of the principles which are at the heart of our coastwise maritime laws.

It appears to acknowledge an irony of the Vietnam era, that we are going to destroy the Jones Act in order to save it. The effect of this bill on the Jones Act will be substantial and damaging. If enacted in its current form, the bedrock underlying the Jones Act will become a shifting sea of sand. Yet some have asserted that we should support this bill out of desperation, since this administration no longer provides construction subsidies. Clearly, this analogy just does not fit. For one thing, even when construction and operating subsidies were available in the seventies, they were not being used for passenger vessels. Moreover, the Reagan administration's passenger ship policies have been productive. It was this administration which advocated reducing the depreciable life of a ship from 14 to 5 years, and it was President Reagan who restored the deductibility of expenses for business meetings, seminars, and conventions held on U.S. registered vessels on voyages between U.S. ports.

In essence, this change established an exclusive market that never previously existed, and makes the privilege of participating in our coastwise trade even more valuable. The creation of this market, which has only existed since January 1, 1983, has sparked a revival of interest by American businessmen in participating in the passenger coastwise trade, and it is one of the primary reasons, Mr. Lambert or, more accurately stated, Cunard, wishes to indirectly penetrate the Jones Act with foreign built passenger vessels. For if this bill passes, Lambert/Cunard will be the only operators able to enjoy this newly created market in the continental United States and its territories, an exclusive situation, a monopoly, as you will, for two foreign built ships.

What is tragically ironic is that less than 1 year after the enactment of these new tax provisions, we are now considering this leg-

islation which will render them moot long before their full benefits are realized. If we are truly interested in revitalizing our maritime industries, then I believe we should give these policies time to work.

Mr. Chairman, I believe it is fairly obvious that this is a highly controversial piece of legislation. You said so earlier. I personally received dozens of phone calls, visitors, and letters in opposition to this bill. Many of these communications were from potential operators, some of whom you will hear from today. In a rather unfortunate twist, we seem to be telling them that they have the burden of proving their commercial liability while we are told to take the viability of Cruise America as a giver..

Still another odd twist, we have spent much of our time in the House trying to prove a negative, that no U.S. shipyard could construct or modify a passenger vessel. I would hope that you would explore the affirmative. As I indicated earlier, my own canvass of American shipyards suggests we can build American cruise ships in a cost effective and timely manner. I think we need an American built, American manned passenger ship industry, but there are better ways to do it than this bill.

Several that I might suggest to the subcommittee, we could open the window to broad reflagging as Congress did with subsidized liners. If reflaggers come in, you could require that they build a comparable vessel in a U.S. yard as a condition for their entrance. You could require that reflagged vessel owners pay for the right to enter the Jones Act trade by means of a reflagging tax, a means to offset their tremendous cost advantage by way of American built ships. Or, we could not let any ships in.

Finally, there should be no rush to judgment. To me, the most important question that is presented in this entire debate is, why are we hurrying? Even if Cunard's parent company, Trafalgar House, is selling off assets to facilitate its hostile takeover of another shipping concern, why should we press on with so many disturbing questions still pending?

One other question I want to bring to the committee's attention, a question that was raised both at the hearing in the House and at our markup, is in regard to repairs. We were told by Mr. Lambert that any repairs would be made at domestic shipyards, further benefiting the American economy.

While that statement was being made, one of the ships was being refitted at Malta at an expense of about $7 million. It is kind of disturbing when you look at the August 18, 1983, issue of Fair Play magazine that one of the two ships involved here, the *Countess,* had arrived in Malta for $7 million worth of repairs at the time this testimony was being given, and not just to adjust for Falklands War use, as some have suggested.

In fact, the decks were redone. A new gymnasium was put in. A conference hall was put in. A jacuzzi was added. Major alterations were made to the air conditioning and electrical wiring. Four new generators were added. New boilers were added, and new engines were added, and three million tons of stainless steel shelving were installed in accordance with U.S. port regulations, and I might say that that steel was not American steel.

I want to share, in line with that question, a letter that we received from the British Embassy dated September 19, 1983, where we had asked exactly what was the service of the *Princess* and the *Countess* in the Falkland Islands, and again, we would be glad to provide this letter to the committee.

Paragraph 2 says, "You asked me what part the Cunard *Countess* and the Cunard *Princess* had played in the Falkland Islands campaign," and this is Mr. Allen, who is first secretary, civil aviation and shipping, from the British Embassy. He says, "You asked me what part the Cunard *Countess* and the Cunard *Princess* had played in the Falkland Islands campaign. I understand the position to be as follows. Neither vessel was involved in the military campaign which ended in the recapture of the Falkland Islands. Subsequently, the Cunard *Countess* was chartered and used for some months to carry troops between Ascension Islands and the Flakland Islands. The Cunard *Princess* was not involved in these arrangements."

So, the question we ask is, if the refitting was done because of the Falkland Island episode, it just does not wash. It does not make sense to me or to many of the people in our committee.

Senator STEVENS. We would like to have all those letters for the record,[1] please.

Mr. FIELDS. Mr. Chairman, I know I have taken too much time. I want to stop at this time. I have some other things I would be glad to share with the committee. I have been amazed, if not miffed, at our situation in the House of Representatives. I think there are some substantial and significant questions that have not been answered in regard to this particular situation. I think that there are some facts that have not been brought forward to us in the House, facts that I hope that you will certainly find out and ascertain here in the Senate, so that a proper determination and decision can be made.

Senator STEVENS. My recollection is that it was my and Senator Inouye's amendment to the Tax Reform Act that opened up the cruise ship business to the convention tax deduction. You make a good point that this bill allows these vessels to move into a business that has been stimulatd by a change in the tax laws. Maybe we should change the tax laws a little bit further so that we can stimulate some building of U.S. vessels and not have this problem. I do not have any questions. I think I understand your position.

Senator Inouye.

Senator INOUYE. When the Senate considered legislation to restore the flag privileges to the SS *Oceanic Independence,* the Department of Transportation submitted a letter of support and MARAD testified in support of it. I have tried to look over the transcript of your hearings, but I see no similar letters of support from MARAD for this legislation.

Do you know whether the administration supports the reflagging of the Cunard ships?

Mr. FIELDS. Senator, I am not aware of a position. I am aware of one position from the Department of the Navy. Mr. Lambert had asked for a Jones Act waiver from the Department of the Navy,

[1] The letters were submitted and are in the committee files.

which can be granted on national defense grounds. I would be glad to submit this letter, dated February 1, 1983, from Andrew Prince, who was at that point and I assume still is Deputy Assistant Secretary of the Navy, Sealift and Maritime Affairs.

In the second paragraph, the second sentence, he says, talking to Mr. Lambert:

> Your position has been carefully reviewed and, while the Department of Defense is supportive of commercial initiatives to stimulate the U.S. maritime industry, it is not apparent that permitting the Cunard *Princess* to operate in the U.S. coastwise trade would provide a clear and direct benefit to the Department. Consequently, I am unable to support your request for a waiver in the interest of national defense, and defer to the views of the Department of Transportation and other Federal agencies as their interests may appear.

Beyond that, I am not aware of any.

Senator INOUYE. Mr. Chairman, may I ask that that letter be made a part of the record?

Senator STEVENS. Yes, thank you.

[The following information was subsequently received for the record:]

FEBRUARY 1, 1983.

ROBERT L. LAMBERT,
President, Cruise America Lines, Inc.,
Fort Lauderdale, Fla.

DEAR MR. LAMBERT: I have been asked to reply to your recent letter to the Secretary of Defense petitioning the Secretary to recommend waiver of certain restrictions of the Merchant Marine Act of 1920, and the Vessel Documentation Act to permit entry of the passenger motor ship Cunard Princess to operate in the United States Coastwise trade. The basis for this petition is that a waiver of these restrictions would enhance our nation's military preparedness by strengthening the available sealift capacity under the United States flag for national defense purposes.

Under the provisions of the act of December 27, 1950, P.L. 81-891, 64 Stat. 1120 (1950-1951) such a waiver can be requested by the Secretary of Defense when deemed necessary in the interest of national defense. Your petition has been carefully reviewed and while the Department of Defense (DOD) is supportive of commercial inititives to stimulate the U.S. maritime industry, it is not apparent that pemitting the Cunard Princess to operate in the U.S. Coastwise trades would provide a clear and direct benefit to the Department. Consequently, I am unable to support your request for a waiver in the interest of National Defense and defer to the views of the Department of Transportation and other Federal Agencies as their interests may appear.

ANDREW S. PRINCE,
Deputy Assistant Secretary of the Navy
(Sealift and Maritime Affairs).

Senator INOUYE. I have no further questions. Thank you very much.

Senator STEVENS. Senator Gorton, do you have any questions?

Senator GORTON. No questions.

Senator STEVENS. Senator Kasten.

Senator KASTEN. No questions.

Senator STEVENS. We thank you very much. We appreciate your courtesy and we would appreciate having copies of the letters that you quoted from, to facilitate the transcript here.

Next, our friend Mario Biaggi is here. Congressman, it looks like you brought your whole staff. Why don't you tell us who all is at the table, please.

STATEMENTS OF HON. MARIO BIAGGI, U.S. REPRESENTATIVE FROM NEW YORK, ACCOMPANIED BY CYNDY WILKINSON, COUNSEL, SUBCOMMITTEE ON MERCHANT MARINE, HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES; HON. E. CLAY SHAW, JR., U.S. REPRESENTATIVE FROM FLORIDA, ACCOMPANIED BY BRIAN LOCKWOOD, LEGISLATIVE AIDE

Mr. BIAGGI. Congressman Shaw is on my right.

Mr. SHAW. And with me is Brian Lockwood, who is one of my legislative aides.

Mr. BIAGGI. Cyndy Wilkinson, counsel for the Merchant Marine Subcommittee, accompanies me.

I would like to defer, Mr. Chairman, to Congressman Shaw for an opening statement.

Mr. SHAW. Mr. Chairman, I first of all want to thank you, to think that I look quite that bright to be a staff person.

Mr. Chairman——

Senator STEVENS. I do not have my glasses on.

Mr. SHAW. We certainly appreciate this opportunity to appear before the committee in full support and, I might say, enthusiastic support of S. 1197. Mr. Chairman and members of the committee, this bill is a jobs bill the like of which you have never seen before, and one that does not cost the Federal Government one single dime.

Pass this legislation and you will put over 1,000 sailors to work. Pass this legislation and you are creating approximately $10 million worth of work for the American people and American shipyards. That is the amount of work it will take to bring these two ships into compliance with the U.S. design and safety specifications.

Pass this legislation and you are making $10 million worth of annual repair and maintenance work for U.S. shipyards, American shipyards, work that does not currently exist. You will have cruise ships calling on American ports such as Detroit, Mobile, New Orleans, and Norfolk, ports which the foreign-flag vessels currently neglect. Along with these ships will come tourist-related jobs and commerce.

Now, opponents will say, and they have said, that they are arguing for jobs as well. They are saying, do not enact this legislation because you will destroy the domestic cruise shipbuilding industry. Mr. Chairman, you will not put anyone out of work by enacting S. 1197. This type of work has not existed for 25 years, the last time a ship of this sort was built in the United States.

Opponents are saying that we will kill new ships that are currently being planned. I respond to that in two ways: First, if the U.S. shipbuilding industry can build such cruise ships for the same price as foreign yards, as some have maintained, this bill will not discourage domestic construction, because these U.S.-built ships will be able to compete on an even basis with the foreign-flag operators.

Second, if U.S. shipyards cannot build at or near foreign yard prices, as figures from our own Maritime Administration would indicate, this bill will not destroy any deals, because deals will not exist because they will not be economically feasible.

Clearly, we can all agree that if your product costs more to build it is going to cost more to sell. In the context of cruise ships, this means that, everything else being equal, the U.S. ships are going to have to charge higher cabin rates than its foreign-flag competitor. If the cost of building a cruise ship in the United States is anywhere from 50 to 80 to 100 percent higher than in foreign yards, as I believe the situation to be, that U.S. operator is going to have to charge a much higher cabin rate to recoup his costs.

With substantially higher cabin rates, the U.S. operator is going to have a difficult time attracting enough passengers to be profitable. If the numbers do not work out and have no chance of working out, the would-be U.S. operators will not be able to secure financing for the project.

Given this economic reality, the options are two: Pass this legislation and put a whole lot of people to work in jobs that we know will exist, or oppose this bill and protect phantom jobs that do not exist and which have not existed for over 25 years.

Senator STEVENS. Thank you very much.

Mario, do you want to proceed now and then we will ask both of you questions?

Mr. BIAGGI. Thank you very much, Mr. Chairman and gentlemen, for the opportunity to testify on this bill, a bill that I believe will revitalize, help revitalize, the American-flag coastwise cruise trade, whatever there is of it.

Just last week, the House Merchant Marine and Fisheries Committee market up the companion bill, H.R. 2883, by a vote of 30 to 10 and reported it to the House of Representatives. I can say without hesitation that the members of the Merchant Marine Committee were lobbied more relentlessly on this bill than any other in recent memory. There has been a great deal of controversy surrounding this bill, and much of it has been born and created by conflicts between unions rather than because of substance.

As I am sure you are aware by now, I support it and I feel strongly about it. That is why I decided to appear here today to urge your support for this important measure. Ordinarily, I would not do that. But I am here to make certain that you get the facts as they are, not as they are ofttimes erroneously portrayed.

I am so adamant in support of this legislation because the situation in the Jones Act passenger trade is at rock bottom. Those who fear this bill because of the harm it would do to the Jones Act are kidding themselves or are trying to kid others. We have not had a luxury cruise vessel in the coastwise trade since the 1950's, until special legislation was passed to allow the Constitution and the Independence to begin serving the Hawaiian Islands.

They took a chance there, and they are successful. They provided 1,000 jobs, and I am willing to predict that in short order there will be others trying to come onstream.

During this period when our domestic and foreign cruise ship trade was disappearing, foreign-flag activity flourished. Today, an estimated 50 foreign-flag ships operate out of U.S. ports every year. And they did not come on board all at one time. They ease into the business as they saw it grow, as they saw the market available.

And the reason I make that point is, I predict that if the *Princess* and the *Countess* are permitted to explore this market, at cost to

the principals, and find it is a viable market, that we have the potential of another half dozen vessels coming onstream in an area where no business exists.

The sad fact of the matter is that most of the people who take cruises are American citizens, whose yankee dollars are pouring into the coffers of foreign operators. We have lost tourist dollars, tax dollars, jobs, and our cruise ship industry, which is a national disgrace.

This legislation would be a step in the right direction in pursuit of a healthy, active Jones Act cruise trade. Now, talking about the Jones Act, I am as concerned about it as any Member of the House. We have strengthened it on occasion and we made exceptions on occasion. We made exceptions many times.

It is not all that sacrosanct, but the exceptions are made only after careful hearing. We have never impacted on the true meaning of the Jones Act or jeopardized any American vessel or business.

I cannot emphasize sufficiently that we do not have any ships in that area now. The only ships we have going are two vessels, and this would double our fleet—from two to four. That is ridiculous. But at least it is a step in the right direction.

We are looking at a declining market and a declining maritime fleet. No matter what we do with operating subsidies, construction subsidies, title XI—and I must parenthetically state, it seems to be the one program that seems to be working best of all, but notwithstanding that, we have been going down the drain.

The enactment of S. 1197 would put two 6-year-old vessels in the coastwise trade of the United States within 6 to 9 months of the bill's enactment. It would create 1,000 seagoing jobs, and preserve countless portside and ship repair jobs.

The vessels could be used by the United States in time of war or conflict. In fact—and this is in response to representations made by others in the subcommittee and today—the British requisitioned the Cunard *Countess* as a troop and supply transport in the Falklands Islands crisis. That is what they did. They did not get engaged in that crisis by firing armaments. It was a troopship, and that is what we need, and we do not have it here in the United States today.

Some people argue that the Department of Defense has concluded that these vessels would not be beneficial to the national defense. I would like to address this point.

First, it is clear that the vessels could be used as troop transports. The British just proved that. The misconceptions arise from the Defense Department statement in denying an administrative waiver to allow the vessels to enter the coastwise trade.

I noted that the gentleman from Hawaii asked to have that letter introduced into the record of the preceding speaker.

I would like to focus on this for a while to make the very careful distinction: These waivers are granted sparingly and only in response to an immediate need. We are not at war, we have no present military need for troop transports. This is why the Department of Defense did not recommend the waiver. But who is to deny that this vessel was used as a troopship or could be used as a troopship? That is history, that is fact.

Consequently, that decision is not a judgment on the military usefulness of these ships. In fact, representatives of the Navy's Military Sealift Command and the Navy's Office of Legislative Affairs concur that the Federal commercial passenger vessel in fact would provide defense benefits to our country. And I repeat: that it would in fact provide defense benefits to our country.

It has also been argued that these ships are available to the Department of Defense now, so why do we need this legislation? This statement is only partly true. The Cunard *Countess* flies the British flag. The Cunard *Princess* is of Bahamian registry. Therefore, the *Countess* is currently an asset of the NATO shipping pool. The *Princess* is not, since the Bahamas is not a signatory to the NATO treaty.

NATO vessels are available only where a NATO theater is involved, and then presumably only where the ships are not being used by their flag nation. Unless the foreign-flag vessel is U.S.-owned, or is laying idle within the territorial jurisdiction of the United States, the United States has no authority to requisition NATO vessels.

Some accusations have been made that a great deal of work was done on the *Countess* in Malta recently, obviating the need to have any work done in the United States if the bill were passed. The truth is, the work is, the work was done in Malta. That ship had not been landside for 8 months. It was fueled at sea, it was a troopship, and it was subjected to all of the vicissitudes and difficulties that a troopship would have at sea, and it had to be refurbished—not refurbished to U.S. Coast Guard standards, but refurbished to the acceptable standards in the normal course of trade.

And you do not expect a corporation that would look to the possibility, a simple possibility, of having legislation passed here in the Congress to effect this transfer of ownership, to justify the added expenditure of spending the additional $6.8 million. That is what it would cost to repair this ship, bring it up to U.S. standards. It would be foolhardy and any corporate director would be held to task for it on such a speculative outcome.

The *Countess* was laid up in Malta between May 4 and June 16. The work done there had a twofold purpose: to remove the military features installed for the ship's service during the Falkland Islands conflict; and to repair and replace certain facilities and features of the ship.

When she arrived at Malta, she was in a badly deteriorated condition. The work that was done there does not obviate the need for work to be done in U.S. yards to meet marine safety standards, which I have stated. The bill as passed by the Merchant Marine and Fisheries Committee requires all of these operations to be done in U.S. yards, and that is the result of an amendment that I offered. Every single alteration, all the work on those ships henceforth, will be done in U.S. yards. That is more than the Jones Act requires.

As I have said, the work that was done was either the result of arduous military service or previously planned work on the ship.

Other rumors also say that the *Princess* is scheduled for overhauling in the next few weeks, supposedly for the same purpose,

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that is, to avoid having the work done in U.S. shipyards. These rumors are untrue as well, for the very same reason.

If the Congress fails to pass this legislation, there is no reason in the world why the Cunard Lines would find it necessary to upgrade and spend $10 to $12 million to upgrade the vessels to U.S. standards, when the ships could continue to function in the same passenger cruise business that they have been operating in without that expenditure.

A great deal of concern has been voiced about the ability and intentions of the Cunard Line to sell the ships to Cruise America. Let us clear up the questions.

First, the British Government—and I have a letter here and it is included in the report that we have sent to the members of the subcommittee. First, the British Government by letter assured the House Merchant Marine Commitee that they have no legal ability to prevent the sale of the Cunard ships to an American operator.

Second, the president of the Cunard Line has confirmed to me on the phone, and again today—and he is present—his intentions to sell the ships to Cruise America if legislation is passed granting the Cunard vessels coastwise privileges.

Third, there has been a corporate takeover battle in England between Cunard's parent company, Trafalgar House, and the P&O Steam Navigation Co. Trafalgar is seeking to take over P&O. Whether Trafalgar merges with P&O or not, Trafalgar would still have the corporate ability to direct the sale of the vessels before, during or after the merger. The decision by the Monopolies Commission on the merger question, then, is not relevant to our legislation.

There are also concerns that the Cunard Line would really be the controlling force behind the vessels and that Cruise America is just a cardboard company. Let me allay those concerns as well.

Cunard Line has advised us that they have no desire to own a part of Cruise America. However, they have expressed a desire to provide marketing or other services. Since Cunard has such vast experience in the cruise ship trade, their help would be invaluable to Cruise America.

Even if Cunard desired to own a part of Cruise America, it would be circumscribed by our laws, specifically the Documentation Act and the Shipping Act, which some people are not aware of.

And what about the ability of a U.S. operator to build in a U.S. shipyard? That is the $64,000 question. In light of the fact that it has been decades since anyone has built a luxury passenger ship in the United States, estimates of costs and building times are speculative.

We have received estimates from a variety of sources. They range from $65 million to $757 million, and from 24 months to 45 months, depending on the size and quality of the ships. Some yards would not even hazard a guess. I will not dare evaluate which estimate is the most accurate. I know that is a crystal ball operation, and we are not engaged in that.

Regardless of the cost, it is a fact that bankers do not lend money freely. They have to be shown their investment will be a viable endeavor. Passage of this bill would impose upon Cruise America the responsibility and the burden of proving whether

there is a coastwise market or not. Bankers would have some proven basis on which to evaluate whether to loan money for a Jones Act passenger ship.

The crucial issue is whether allowing these two vessels to enter our coastwise trade will harm other potential operators. I am convinced it will not. It will be at least 3 years before a comparable ship can be built in the United States. During this time, Cruise America could be stimulating interest in coastwise cruises by their advertising and their activities. Other companies could not help but benefit from their experience.

There is a large untapped market that the two Cunard ships alone cannot service. In our deliberations on the bill, we learned two important facts:

First, less than 5 percent of the American public has ever taken a cruise. This percentage has the potential to expand to 17 percent, according to some marketing studies.

Second, we learned that the coastwise cruise trade could support about 10 vessels comparable to the Cunard vessels. It is apparent, then, that there is ample room for other operators to enter the trade.

I think the facts are clear: We have little or no Jones Act cruise ship industry. This bill would immediately double our fleet and create 1,000 jobs, seafaring jobs. It would allow Americans to sail on a cruise ship flying the U.S. flag.

And I would like to sum up the arguments. Talking about letters, we have reams of them, and they will be made available for the committee by the staff.

Many people who came before us misled us, time and time again they misled us. We have been as generous, as understanding, as we could be. We have provided all the time possible for people who come before us and say they have an American ship they want to bring onboard. And we wait and we wait and we wait. They never get their financing package together.

When we were considering the *Constitution* we postponed the conclusion of those hearings for almost a year because the owners of the *Monterey* said they were about to secure financing. They still did not have their package in place even after the *Constitution* legislation was enacted. In the hearings on H.R. 2883 we had a representative again talking about the *Monterey.* they still did not have their package in place. To this day they do not have their package in place. To this moment they do not have their package in place, and they are going to tell you that they are negotiating with some Swiss financiers. And the answer they will give you as the basis for that statement that they have a package in place is that it is not a negative answer.

What I am trying to say, gentlemen—and I am sure you are familiar with this. It has been dilatory. People are trying to exploit the situation. But we have a responsibility to help the passenger trade, and that is what we are doing.

This hearing was scheduled for 1 day. Because the gentleman from Texas raised the question of the Contessa Cruise Line, we granted an additional day. He said there was an American operator that was in a position to proceed. Nothing delighted me more.

We gave it an additional day. We had the testimony. The testimony frankly was questionable. The corporation came into business 3 days after the bill was introduced. The financial package was not in place. The financier was present and testified. The financier is no longer part of that package. He has withdrawn, is currently suing for the return of his money.

I spoke to the principal, Mr. Briggs, personnally only 2 weeks ago for the first time directly, in the presence of staff. And he said he is trying to put something together with Merrill Lynch and he will not be ready for at least 3 more years. All he wanted from the chairman, myself, was accessibility, which is available to anybody.

What we are looking at is a number of people who are looking at a possibility of making a buck and putting a package together. And I have no quarrel with that, but they are not to use the Members of the Congress nor this committee or our committee on the House side in providing questionable testimony, and ofttimes—well, we will let it go at that, we will just let it go at that. I refuse to be used on that score.

A few other suggestions. The question was raised, was there any agreement? I stated at the full committee markup that I saw an agreement to purchase and sell. The principal showed it to me, and the principal is here today and I am sure he has it in his voluminous files. I stated that I saw it together with members of staff.

The question was raised at the subcommittee markup, and a valid question. I saw it. I said that. And why it was repeated here today is beyond me.

I spoke to Secretary Dole this morning. The administration has no position up until this point. I think you might well be receiving a comment from Secretary Dole.

The amendment, let me tell you about the amendment. We were so concerned about the possibility of an American operator coming onstream that we carved out the whole gulf for that American operator. And that is what Mr. Briggs of Contessa Cruises wanted and agreed to.

We said that when an American operator—in this case we were thinking of Contessa Cruises, or it could be any other American operator—when they came onstream, 6 months later Cruise America would have to leave.

Now, contemplate what that is. You would have Cruise America building up a business. That business is not fully developed. It is going to require a lot of leadtime and it is going to cost some money. They will build up that gulf trade.

If the American operator comes onstream, Cruise America ships out, and it is a delightful plum for any American operator to come in, not required to spend any marketing money for marketing studies, exploratory studies. They will just pick up an existing business that was created by Cruise America in this case.

Now, I am here, gentlemen, as I said before, and I rarely testify because I think it is sufficient that we submit our reports from the House. But I am here because, frankly, I resented the interunion fighting. And why are some of them fighting? Because they do not think they are getting jobs. They do not think they are getting the jobs.

That is not our business. Our business is building up the maritime service. I am here to see that the facts are portrayed and conveyed to you as they are, as they are, not as they ofttimes are misrepresented.

And I sincerely hope that you will give this legislation the kind of consideration that it deserves. And I close with this one last thought, that be assured my concern for the preservation of the Jones Act is as strong as any member of the Merchant Marine Committee and Members of the Congress.

Senator STEVENS. Thank you, Congressman, we are honored by your appearance. I think this is the first time that you have been over here in a long time. You made your points very clearly and persuasively.

I know that the relationship that you have had with me and my predecessor chairmen of this subcommittee, has been a good one. The fact that you have taken the time to come over is a point in and of itself.

Let me ask you one question. Did you consider the possibility of establishing a capital construction fund for these vessels and requiring that replacement vessels be built in the United States?

Mr. BIAGGI. No, we have not considered it, but it is a thought.

Senator STEVENS. I just wondered whether you had explored the concept of CCF and tying it into a second generation of U.S. vessels.

Mr. BIAGGI. No. But on its face it has considerable merit.

Senator STEVENS. We will look into it, then.

Thank you very much.

Senator Inouye.

Senator INOUYE. I would like to commend the Congressman for his forceful statement. He is most persuasive.

Before I proceed, I would like to congratulate you on being the 1983 recipient of the Admiral of the Oceans Seas Award, a most prestigious merchant marine industry award.

Mr. BIAGGI. If I may comment, Senator, It becomes even more prestigious because I know you have been the recipient of it.

Senator INOUYE. That is a first class award.

Senator STEVENS. I do not know what we are going to do with all of these admirals around here.

Senator INOUYE. Mr. Chairman, you were speaking of the *Monterey* not having its financial package in place. Does Cruise America have its financial package in place?

Mr. BIAGGI. Apparently it has. That is the testimony we have received.

Senator INOUYE. Well, we will have an opportunity to ask the president of Cruise America on that. But the information we have gathered is to the contrary.

Before this subcommittee acted on *Oceanic Independence* and *Constitution,* we requested the views of the administration, and as you know MARAD and DOT supported the proposition here.

Did MARAD and DOT support this legislation when it was in your committee?

Mr. BIAGGI. No, they have taken no position. But as I stated, I spoke with Secretary Dole this morning. We have met and dis-

cussed a number of issues. This is one of the issues. And there might well be a position forthcoming.

Senator INOUYE. Did the Secretary indicate what her position would be?

Mr. BIAGGI. Now, this is going to be my own extrapolation of it. I am inclined to believe that she would be friendly. But I will call her this afternoon and try to urge a comment from her.

Senator INOUYE. What would you think of an amendment to this bill that would make it contingent upon the ships being sold to Cruise America before this law takes effect? I ask this because at the present time we have nothing in our files to indicate that there is a firm commitment. The letter says "I intend to sell," which no court would consider as being binding.

Mr. BIAGGI. I think Mr. Lambert will display, if he is in a position to, the letter of agreement where he has agreed to purchase and Cunard has agreed to sell. And I know exactly the point you are making. It is well taken.

But from a practical perspective, if the transaction preceded the legislation and then the legislation failed of enactment, the principal would be in some kind of problem. If you could develop language where you would have a contingency, I would have no problem with it. I know exactly the point the gentleman is making and I agree with the gentleman.

Senator INOUYE. Under the present situation, if the bill is passed as is, I do not believe Cunard would be required by law to sell the two ships to Cruise America Line, Inc. In fact, Cunard can go into the market and seek the highest bidder.

Mr. BIAGGI. I know the point that the gentleman is making.

Senator INOUYE. And what we would be doing in essence is providing Cunard with a huge bundle of money.

Mr. BIAGGI. I have not seen the Senate bill, but the House bill specifically mentions the sale to Cruise America.

Senator INOUYE. Is that a contingency?

Mr. BIAGGI. Yes, it is clearly in the language.

If I may, Senator, I know the point that the Senator is making and I agree with you. If we can devise some kind of language that would respond to that concern—and I am sure that staff can do it—I would agree with you wholeheartedly.

Mr. SHAW. Senator, if I might respond also to the question. The House bill says that "upon the application of Cruise America Line, Inc., or its assignee to be documented vessels of the United States." The House bill does anticipate that the application would come from Cruise America Line or its assignee.

Senator INOUYE. So we have no idea of whom the potential assignee could be.

Mr. SHAW. No; a lot of smokescreen and a lot of attempts to throw up unanswered questions have been made by the previous witness. I would like to tell this committee—and I think this is quite important—the Lamberts themselves are a long-time Fort Lauderdale family. They were there when I first moved to Fort Lauderdale. I was mayor of Fort Lauderdale for many years before becoming a Member of Congress from the 15th Congressional District.

I know them to be a most honorable family in their business dealings. They have been above reproach. As a matter of fact, when I understood first of all that he was interested in such a bill my first question to him was: Why does a nice guy like you want to get into tough business like that?

This is the type of person that we are dealing with, and it is not some individual in the shadows for which all kinds of questions have to be raised. I have asked him specifically what he intends to do, and his intention is to operate this ship. So it would certainly come as a great surprise to me should it be his intention to assign this out to somebody else.

And I think that the Congress cannot lose sight of what we are trying to do, and that is we are trying to get ships into the American merchant marine and we are trying to create jobs for Americans.

Senator INOUYE. Thank you very much.

Thank you, Mr. Chairman.

Mr. BIAGGI. If I may before I go, Senator, on the CCF question, my counsel, Ms. Wilkinson, just pointed out to me that if we get involved with that, the bill may well be referred to Ways and Means.

Senator STEVENS. My staff has the same comment. We will just have to take care of that in a general piece of legislation as it comes through.

But I do think that if we grant these waivers that we ought to have some sort of a carrot out there to try to get into U.S.-built vessels as quickly as possible.

Mr. BIAGGI. I know you are concerned about it, and I share it and I endorse that wholeheartedly.

Thank you, Mr. Chairman.

Senator STEVENS. Are there other questions for the subcommittee?

Senator GORTON. I have only one question. I would like to congratulate Mr. Biaggi. He and I have worked together, so far with some success.

Mr. BIAGGI. It is going to be all right, Senator.

Senator GORTON. Knock on wood, with the hope that it will go on through.

I did have one question that I wanted to ask Congressman Shaw. At the very beginning of your testimony you said that because there were no ships in this field there was no possibility of this bill destroying jobs in the United States.

Yet, as you know, one of the later witnesses, Mr. Hadley, proposes to use the United States in this kind of trade, and in the absence of this bill many, many million dollars' worth of construction and refitting of that will be done in the United States, which if the bill passes will be done outside the United States. That will cost, I think, a substantial number of jobs and a very, very large contract.

So at least it seems to me we must weigh that against whatever good the bill will do. And I wonder if you can tell me, from a purely parochial point of view, how long it will take these cruise ships to bring money, jobs, to Puget Sound sufficient to make up for what we will lose as a result of the passage of the bill?

Mr. SHAW. I believe that the figure was mentioned in Chairman Biaggi's statement. I think you said 9 months?

Mr. BIAGGI. It should be onstream in 6 to 9 months.

But if I might go a little further, Senator, in relation to Mr. Hadley, who is a fine gentleman, although I think, very frankly, he was shabbly treated by Government agencies——

Senator GORTON. As do I.

Mr. BIAGGI. And I have said it in open committee, that I thought he was shabbly treated, and if we could find a way to make him whole I would certainly be willing to do that. However, he also testified that this is not the same kind of business. The United States is the ultimate as compared to these others.

But as far as these two vessels are concerned, they should be onstream in 6 to 9 months.

Senator KASTEN. Thank you.

Senator STEVENS. Thank you.

Senator KASTEN. Mr. Chairman, I have no questions. I would like to ask—put some questions in the record for some of the witnesses who are scheduled to appear. I am going to have to leave and I have some questions to have answered.

Senator STEVENS. Yes; we request that the witnesses respond, although I do not think that applies to these witnesses.

We do thank you very much for your appearance.

Mr. BIAGGI. Thank you, and nice to see you.

Senator STEVENS. We lock forward to working with you on the bill.

Our next witness is Mr. Robert L. Lambert, president of Cruise America Line, Inc., of Fort Lauderdale, Fla. Mr. Lambert, we are happy to have your testimony. We do have copies of it here. We would be pleased if you would proceed in any way you wish.

STATEMENT OF ROBERT L. LAMBERT, PRESIDENT, CRUISE AMERICA LINE, INC.

Mr. LAMBERT. Mr. Chairman and members of the subcommittee, thank you for providing Cruise America an opportunity to testify in support of S. 1197, a bill which would permit the passenger vessels Cunard *Princess* and Cunard *Countess* to operate in the U.S. coastwise passenger trade.

This legislation would significantly promote the revitalization of the U.S.-flag passenger ship industry, which has steadily declined over the past 20 years, by adding two modern, high-speed, highly maneuverable vessels to the U.S.-flag fleet. In a booming cruise market overwhelmingly dominated by foreign flag vessels, there are at this time no U.S.-flag vessels operating in the continental United States, nor have there been any for over 20 years. The only two large U.S.-flag cruise vessels in existence are operating in the Hawaiian Islands as a result of congressional action.

Moreover, there have been no large passenger vessels built in U.S. shipyards in over 20 years. We find in the American cruising market today foreign flag ships taking Americans to foreign destinations.

Cruise America Line, Inc., was formed for the purpose of owning and operating a U.S.-flag business with a large, modern cruise

vessel. If S. 1197 is enacted into law, Cruise America will purchase the *Princess* and the *Countess* and operate them as U.S.-flag ships to domestic destinations.

Well before entering into discussions with the owner, Cunard Line, Ltd., to purchase these vessels, the principals of Cruise America diligently pursued the construction of new cruise ships in U.S. shipyards. We learned that the high cost of construction and other economic factors made it infeasible to construct large, luxurious deep sea passenger tonnage in domestic shipyards for operation in the competitive U.S. cruise market.

The company conducted a fleetwide survey of all cruise tonnage potentially available for sale and selected the *Princess* and the *Countess* as the two cruise ships most suitable for conversion to U.S. standards and for their operational flexibility in enabling them to reach the greatest number of ports in the intercoastal trade.

Cruise America has negotiated a preliminary agreement to purchase the vessels from Cunard, subject to the passage of this legislation. Cunard has not asked for Cruise America, nor has Cruise America agreed, to Cunard taking an ownership position in Cruise America or in the ownership of these vessels.

Cruise America has undergone protracted negotiations with a major underwriting firm and has arranged a potential financing package for purchase of the vessels, subject to the passage of the necessary legislation. Let me emphasize that Cruise America will retain full control of the company and operation of the two ships presently involved.

Because the *Princess* and *Countess* were constructed in Danish, rather than domestic shipyards, they cannot operate in the U.S. coastwise trade. S. 1197 would waive the applicable restrictions to allow these vessels to be documented as U.S.-flag vessels and engage in domestic coastwise trade. No other provision of U.S. maritime law would be affected by S. 1197.

In all other respects, the vessels would comply with the laws applicable to U.S.-flag ships, including U.S. Coast Guard, Interstate Commerce Commission, Federal Maritime Commission, and Maritime Administration regulations. The ships will meet all of the American ownership requirements of U.S. law and will be crewed by Americans. In compliance with U.S. laws, all ship repairs, maintenance, and annual overhauls will be performed at U.S. shipyards, including the initial alterations required to bring the vessels into compliance with U.S. maritime safety standards.

By putting two modern luxury cruise vessels into the coastwise trade within 9 months of its enactment, this legislation will create jobs and generate revenues in the maritime, tourist, and shipbuilding industries. It will add approximately 1,050 full-time seagoing jobs to our merchant marine, which currently suffers from 48 percent unemployment.

Countless shoreside jobs will be created. Cruise America intends to operate one of the ships between ports along the east coast, the Gulf of Mexico, and the Great Lakes, and the other ship along the west coast and Alaska. Cruise passengers embarking at the ports of call will generate revenues to the hotel, restaurant, entertainment, airline, and tourist industries of American seaports. Numerous

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other expenditures associated with the operation of an oceangoing passenger vessel, such as port charges and the purchase of fuel oil and storage, will also boosts the American economy.

Domestic shipyards will also benefit from operation of these vessels. The repair and renovation work necessary to bring these ships to U.S. marine safety standards, estimated at approximately $5 million per vessel, will be performed in domestic yards.

We believe that if the Cruise America experiment is successful and we are to develop a market for all-American cruises, new investment in domestic shipbuilding may be stimulated.

Finally, Mr. Chairman, S. 1197 would make available two large modern passenger vessels to the Department of Defense for use as troop transports, hospital ships, or dormitories in the event of a national emergency. The United States presently has only two large commercial passenger ships at its disposal, in contrast with the Soviet Union, which maintains 64 passenger vessels which they can use for military purposes. The potential military significance of commercial vessels during wartime was illustrated by the conversion of the *Countess* in 7 days to a troop transport and dormitory by Great Britain during the recent Falkland Islands crisis.

In conclusion, let me reemphasize several facts to this subcommittee. There are no large cruise vessels operating today in the continental United States, nor have there been any over the last 20 years. Moreover, no large luxury cruise passenger vessels for any service have been constructed in the United States in well over 20 years.

Cruise America is proposing to make the largest single investment in the passenger ship industry ever made in this country. We estimate that in the first year alone the advertising expenditure necessary to develop and promote a market for cruises to American destinations will be approximately $10 million.

Success in this venture will require a massive investment and a large amount of risk. But Cruise America is committed to operating these vessels and will do everything in its power to assure the commercial viability of this venture, and we are confident of our success.

We are not asking for any subsidy by the U.S. Government, Mr. Chairman, only a waiver of the authorities that prohibit operating these vessels in the domestic coastwise trade because they are foreign-built.

Thank you, Mr. Chairman, for your interest in and support of S. 1197 and for holding these hearings today. I am now available for any questions the subcommittee may have.

Senator STEVENS. Well, there has been a substantial issue raised here about the extent to which you are committed to the purchase of these vessels. The chairman of the House committee has indicated that he has seen a letter of intent which would be a binding commitment to purchase and sell in the event this legislation passed.

Do you have that? May we see that?

Mr. LAMBERT. We would be most pleased to meet with the staff and review these documents, yes.

Senator STEVENS. But I would like an answer to my question, though. Is there such a document?

Mr. LAMBERT. There is such a document.

Senator STEVENS. And there is a commitment that is contingent only upon this bill passing, that that transaction would take place?

Mr. LAMBERT. Basically, yes.

Senator STEVENS. Does that "basically" also add the contingency of financing?

Mr. LAMBERT. It does not.

Senator STEVENS. Is the financing package already in effect?

Mr. LAMBERT. The financing package is in place and is as far along as is possible, considering the contingency of this legislation and the uncertainty as to the time of investment, yes.

Senator STEVENS. Well, are there any other contingencies involved in this agreement to purchase and sell that we do not know about?

Mr. LAMBERT. Only things of a minor mechanical nature.

Senator STEVENS. You mean subject to inspection and things like that?

Mr. LAMBERT. The normal contingencies in such a transaction, yes.

Senator STEVENS. Well, not having been involved in such a transaction, I do not know what would be normal. I take it that there is some reluctance to put this letter on the record. It is not on the record on the House side and it is not here.

Mr. LAMBERT. Mr. Chairman, in my opinion it is not usual and customary for a shipowner involved in such a transaction to make its business plan public. Again, we would be most happy to meet with you and your staff and thoroughly review the documents.

Senator STEVENS. I understand that and I will respect the business practice involved. But what I am trying to get is your testimony here concerning the existence of an agreement.

Are you prepared to represent to this committee that there is an agreement that Cruise America Line would buy, and that current owners would sell, these vessels, subject only to the primary condition that the Congress of the United States enact this bill? I know, there are other minor things: Approval, inspection, and final closure. The bankers always get involved in those kinds of things. But the major condition is the enactment of this legislation and that is the only major condition?

Mr. LAMBERT. That is affirmative, Mr. Chairman. I would also like to further point out that if that were not the intent of the parties, we certainly would not have spent the last year in this effort, which has been a very substantial effort on the part of our company. Nor would the seller have permitted us during last year and this year to sponsor this legislation, and for the exposure that it has caused them.

I think the intent between the parties is quite clear, and again we would be most happy to review these documents with you.

Senator STEVENS. We just want to assure our colleagues that this is not a speculative effort on behalf of Cruise America Line, but that it intends to operate these vessels.

Mr. LAMBERT. I want to emphatically say that that is the intention of Cruise America, to operate these vessels.

Senator STEVENS. Senator Inouye.

Senator INOUYE. Thank you.

Not having seen the documents, like the chairman, I have some difficulty in asking questions. But under the documents that you have described here, when will ownership of these vessels vest in Cruise America?

Mr. LAMBERT. At such time as Cruise America is assured that it has the approvals necessary to operate the vessels in the trade intended.

Senator INOUYE. In other words, it will vest after the passage of this measure?

Mr. LAMBERT. Senator, I understand what your concerns are from hearing the previous conversations and so forth. Let me just say this, that I previously stated what the intentions of the parties are and I feel confident that we can work out the mechanics or the language of that particular portion of the deal in such a fashion that would make the committee comfortable that there is no windfall profit involved or any intent to market the ships on the open marketplace or anything of that nature.

Senator INOUYE. The document that you have just described to the chairman, what is the date of this document?

Mr. LAMBERT. I do not recall the exact date. This negotiation has been in process, you might say, for approximately 1 year.

Mr. BAHNA. February 10, 1983.

Senator INOUYE. February 10, 1983.

The document you speak of is not the letter of June 23, 1983, is it?

Mr. LAMBERT. No, sir, it is not.

Senator INOUYE. So the date of this document is February 3, 1983—February 10.

When was Cruise America incorporated?

Mr. LAMBERT. A little over 1 year ago.

Senator INOUYE. January 31, 1983?

Mr. LAMBERT. That sounds correct. I am not really sure. I would have to check our records.

Senator INOUYE. Then at the time of the submission of the first bill, S. 3038, which was introduced on August 1, 1982, Cruise America did not exist.

Mr. LAMBERT. I would be reasonably sure that the incorporation of the company was prior to the introduction of that bill. I will have to check to give you the exact date.

Senator INOUYE. I asked you this because I am a bit confused. Dun & Bradstreet tells me that Cruise America Lines, Inc. was incorporated in Florida on January 31, 1983. We have a bill introduced on October 1, 1982, which refers to "Cruise America Line, Inc., or its assignee." And then we have this document dated February 10, 1983, which, according to you, legally binds Cunard to sell you these vessels.

Was Cruise America incorporated before the introduction of measures by Senator Kasten, Senator Stevens, and Senator Gorton?

Mr. LAMBERT. I am quite sure it was, and I will provide you with the exact incorporation date.

Senator INOUYE. And am I correct that your "financial package" is in place?

Mr. LAMBERT. You are correct.

Senator INOUYE. Mr. Chairman, I would like to have for the files the date of the incorporation, just to clarify these things, because it is very confusing, and the date of the binding contract.

Is it impossible for this binding contract to be made part of the record?

Mr. LAMBERT. We would prefer it not be. We would be happy to have you review it, but we would prefer it not be public information.

Senator INOUYE. Can you tell us why?

Mr. LAMBERT. Well, one, because it is not usual and customary in the trade, and because the seller has requested that we do not make public the details of the sale. Now, the seller is quite a large public company and after the sale is consummated those details will be available to the public.

Senator INOUYE. I ask this because when we were considering the *Oceanic Independence,* since the ship was to sail in Hawaiian waters, I was insistent that the ownership be determined; and one of the conditions that the subcommittee had laid out was that the ownership be vested in that company before enactment of the measure. This would not be possible in this case, would it?

Mr. LAMBERT. It very well could be possible. This is a mechanical detail that we will have to meet with you and your staff and work out to your satisfaction.

Senator STEVENS. Senator, I would be glad to work with you on that. We had the same problem, I think, about this in terms of assuring that we do not set a precedent that could haunt us.

Senator INOUYE. I have no further questions. I would like to, if I may, submit a few written questions.

Senator STEVENS. Thank you very much. There was a request from Senator Kasten that witnesses agree to submit answers to questions. He had to go on.

Let me ask just a couple of questions. Mr. Lambert, have you had any past business relationship with the sellers of the vessels, the Cunard Line?

Mr. LAMBERT. Yes, I have.

Senator STEVENS. What was your relationship.

Mr. LAMBERT. I have had a longstanding relationship over the years, beginning in the midseventies, at which time we were negotiating to purchase another vessel from them.

Senator STEVENS. Do you have any business interest in Cunard Lines?

Mr. LAMBERT. None whatsoever.

Senator STEVENS. And they do not have any interest in Cruise America Lines, Inc., right?

Mr. LAMBERT. They do not.

Senator STEVENS. Do any of the other participants and principals in Cruise America Lines, Inc., have such a relationship?

Mr. LAMBERT. With the seller, with Cunard? No; they do not.

Senator STEVENS. Thank you very much. We do appreciate your courtesy, and we do wish to have an opportunity to examine that agreement. I think Senator Inouye and I ought to arrange to see it together, and we will be in touch with you through our staff to achieve that.

Mr. LAMBERT. Thank you.

Senator STEVENS. Thank you very much.
[The statement follows:]

STATEMENT OF ROBERT L. LAMBERT, PRESIDENT, CRUISE AMERICA LINE INC.

Thank you, Mr. Chairman and Members of the Subcommittee, for providing Cruise America an opportunity to testify on S. 1197, a bill which would permit the passenger vessels Cunard Princess and Cunard Countess to operate in the United States coastwise passenger trade. This legislation would significantly promote the revitalization of the U.S.-flag passenger ship industry and at the same time strengthen this Nation's military preparedness.

CRUISE AMERICA LINE, INC.

Cruise America Line, Inc., a corporation based in Fort Lauderdale, Florida, was formed for the purpose of owning and operating vessels in the domestic cruise business. If S. 1197 is enacted into law, Cruise America will purchase the two vessels which are the subject of this legislation, the Princess and the Countess, and operate them in the coastwise trade.

Well before entering into discussions with the current owner, Cunard Line Limited, to purchase these vessels, the principals of Cruise America diligently pursued the construction of new cruise ships in U.S. shipyards. We learned that the high costs of construction made it economically unfeasible to construct large luxurious deep-sea passenger tonnage in domestic shipyards. We received estimates from two major U.S. shipyards of between $250 million and $400 million per vessel. Even with the most recent schedule of accelerated recovery of costs, the requisite annual debt service at such construction cost would range from $38,275,000 to $68,408,000, or $142.95 and $255.49 per passenger per day, excluding all other costs of operation. In a market where the average achievable net per diem on foreign ships operating in the Caribbean is approximately $100, this scheme was hardly feasible. These figures illustrate the diseconomies of building new vessels in American shipyards at this time and why we see no basis for the optimism shared by certain opponents of this legislation that domestic shipyards are capable of or on the verge of constructing vessels comparable to the Countess and Princess at a price that can compete effectively in the highly competitive cruise market. I think they also explain why the last large passenger vessel built in domestic shipyards was delivered in 1958.

Once determined that it was economically infeasible to build new vessels in domestic shipyards, the company conducted a fleet-wide survey of all cruise tonnage potentially available for sale, and selected the Countess and Princess on the basis that they were the two ships most ideally suited to fully meet U.S. requirements at a feasible conversion cost that could successfully compete with the foreign operators. Conversion of the ships to U.S. standards will be facilitated by the fact that they were originally contract designed for a United States corporation to conform to U.S. regulations.

Because the Princess and Countess were constructed in Danish rather than domestic shipyards, they cannot transport passengers in the U.S. coastwise trade. S. 1197 would waive the applicable laws to allow these vessels to be documented as U.S.-flag vessels and engage in the domestic coastwise trade.

No other provision of U.S. maritime law would be affected by S. 1197. In all other respects, the vessels would comply to the laws applicable to U.S.-flag ships, including U.S. Coast Guard, Interstate Commerce Commisison, Federal Maritime Commission and Maritime Administration regulations. The ships will meet all of the American ownership requirements of U.S. law and will be crewed by Americans. And in compliance with U.S. laws, all ship repairs, maintenance, and annual overhauls will be performed at U.S. shipyards, including the initial alterations required to bring the vessels in compliance with United States maritime safety standards.

The principals of Cruise America, all of whom are American citizens, are as follows: President and Treasurer of the company is Robert L. Lambert of Fort Lauderdale, Florida. I have an extensive background in banking and finance, and considerable experience in seagoing and maritime matters. There are four directors: Mr. Hans and J. Hvide, Chairman of the Board of Hvide Shipping and related companies which operate a fleet of harbor tugs and bulk carriers; Dr. F. G. Walton Smith, founder and president of the International Oceanographic Foundation and founder of the Rosenteil School of Marine and Atmospheric Science, a school which has made major innovations in seagoing vessel design, a noted author and member of numerous distinguished maritime organizations; Mr. Marshall Keating, an attorney since 1955 with the firm of Kirlin, Campbell & Keating, specializing in admiralty

law and representing ship owners and insurers worldwide; and Mr. Guy Bailey, president of United Resources, Inc. Miami, Florida, who has an extensive background in real estate development, ocean freight and other maritime related business.

Cruise America has undergone protracted negotiations with a major underwriting firm and has arranged a potential financing package for purchase of the vessels, subject to passage of necessary legislation. Let me emphasize that Cruise America will retain full control of the company and operation of the two ships presently involved.

THE DECLINE OF THE U.S.-FLAG PASSENGER SHIP INDUSTRY

The U.S.-flag passenger cruise industry has been on a steady decline over the past twenty years. As the Subcommittee well knows, this troubling decline can be attributed to numerous factors such as the heavy subsidy of ship construction by many foreign governments and the disparity between U.S. and foreign wages and benefits. Whatever the cause, there are today only two large U.S.-flag luxury cruise ships, the Independence and Constitution, operating in the U.S. coastwise trade and both are operating solely because of special legislation similar to S. 1197 which waived certain provisions of U.S. maritime law. Enactment of S. 1197 would double the number of large U.S.-flag luxury passenger cruise vessels operating in the domestic coastwise trade.

During the same period that U.S.-flag passenger ship construction has declined, the cruise business has experienced tremendous growth. As a result the cruise industry today is overwhelmingly dominated by foreign flag ships. Last year, 90 foreign flag ships served the U.S. market and carried over 1.5 million North American passengers on cruises to foreign ports. Industry projections predict that in 1983 the cruise industry will earn $4.9 billion, up from $2.1 billion in 1979. We believe that U.S.-flag cruise ships—owned and operated by Americans, crewed by Americans, and visiting American ports—should have the opportunity to compete in the cruise market and share with our foreign flag competitors the benefits of America's love for cruises.

S. 1197 WOULD REVITALIZE THE U.S.-FLAG PASSENGER SHIP INDUSTRY

This legislation will put two six year old luxury cruise vessels into the coastwise trade within nine months of its enactment. Operation of the Princess and Countess under the U.S.-flag would provide a shot in the arm to our merchant marine by adding approximately 1050 full-time sea-going jobs, the equivalent manning of approximatley 40 tankers. During a period of 47 percent unemployment in this sector of the economy, Mr. Chairman, you can well appreciate the significance of these new jobs.

In addition, countless auxiliary shoreside jobs will be created. Cruise America intends to operate one of the ships between ports along the East Coast, the Gulf of Mexico, and the Great Lakes and the other ship along the West Coast and Alaska. Cruise passengers embarking at ports-of-call will generate revenues to the hotel, restaurant, entertainment, airline, and tourist industries of our seaports. Numerous other expenditures associated with the operation of an ocean-going passenger vessel such as port charges and the purchase of fuel oil and stores will also boost the American economy.

Our domestic shipyards also stand to benefit from operation of these vessels. First, the repair and renovation work necessary to bring the ships to U.S. marine safety standards, estimated at approximatley $5 million per vessel, will be performed in U.S. shipyards. In addition, annual overhauls estimated at $5 million per ship and other repair work will be performed in domestic yards. Finally, we believe that if the Cruise America experiment is successful and we are able to develop a market for all-American cruises, new investment in domestic shipbuilding may be stimulated.

Thus, S. 1197 meets the spirit and the purpose of the Jones Act. It will support and strengthen our merchant marine and stimulate and revitalize an American-flag passenger cruise industry at no cost to the U.S. Treasury.

OPERATIONS OF THE PRINCESS AND COUNTESS BY CRUISE AMERICA LINE, INC.

No cruises are offered today along the coastline between American ports on large, luxury cruise vessels comparable to the Countess and Princess. The Jones Act limits foreign flag ships, which overwhelmingly dominate the market, in the number of calls they can make at U.S. ports. As a result, most cruises stop at few, if any

American ports. Instead, the cruises available to the American public are to foreign destinations.

Allowing the Princess and Countess to operate under the U.S.-flag will provide Cruise America the opportunity to develop a new, all American cruise package. We intend to offer cruise packages which emphasize our American heritage and feature visits to restored inner city historical and recreational areas at various seaports such as Boston's Faneuil Hall (Quincy Market); New York's South Street Seaport area; Philadelphia's Penn's Landing; Baltimore's Harbor Place; Old Town Alexandria; Charleston's historic district; New Orleans' French Quarter; Savannah's historic district; Key West's Duvall St.; San Francisco's Fisherman's Wharf: San Diego's Embarcadero Center; Long Beach; Seattle; Galveston's Seawall Boulevard; and Detroit's Renaissance Center. The shallow draft and maneuverability of the Countess and the Princess will allow them to call on many interesting smaller communities as well, such as Mackinac Island, Michigan, the Fjords of Maine, Jamestown, Yorktown, and Williamsburg, Virginia, ports heretofore unserved by the luxury cruising industry. The vessels' dimensions enable navigation through the Saint Lawrence Seaway and the Welland Canal and we plan to have one vessel making calls at ports along the Great Lakes during the summer months.

We also anticipate creating interesting and historical side trips by working with operators of our excellent smaller American-flag cruise ships. Our itineraries will be on a rotational basis, moving north to south with the seasons. In all, we feel very excited about the opportunities which our cruises will create for Americans to visit historic seaports and experience our seafaring heritage, as well as tour our beautiful shorelines by ship.

S. 1197 ENHANCES OUR NATIONAL DEFENSE CAPABILTIES

Mr. Chairman, we also wish to bring to your attention the importance this legislation holds for our national defense. There are presently only two U.S.-flag commercial passenger vessels, the Independence and the Constitution, which could be utilized by the Department of Defense as troop carriers or auxiliary hospital ships in the event of a national emergency.

You will recall that those ships also required enabling legislation in order to operate in the coastwise trade. In contrast, the Soviet Union maintains 64 passenger vessels which they can use as military transports.

The potential military use of civilian commercial vessels during wartime is significant. In the recent Falkland Islands crisis, the Cunard Countess was transformed in less than seven days for use in troop and supply transfer. Wher on-shore facilities for housing troops are scarce, as was the case in the Falklands, large commercial passenger cruise vessels can serve as offshore dormitories and hospital ships.

Reflagging the Countess and Princess will make available to the United States two additional vessels for military use in times of crisis. Both ships are modern, will meet American Bureau of Shipping and U.S. Coast Guard standards, and are ideally suited for military use due to their high speed, maneuverability, density, and shallow draft. As cruise ships each vessel has a passenger capacity of 900 and accomodations for a crew of 350; for military purposes each vessel could be converted to accomdate 3,000 troops. Moreover, the ships will be manned by American crew which could be available on board to provide reserve crews where necessary.

In addition to seeking enabling legislation, Cruise America submitted a request to the Department of Defense to obtain an adminstrative waiver of applicable laws in order to reflag these vessels in the interest of national defense. While the request was denied, this does not indicate that the vessels would not benefit our defense capabilities. First, an administrative waiver of the maritime laws for defense purposes has never before been granted on a permanent basis. The waiver procedure was intended to respond to urgent, immediate defense needs. Secondly, officials in the Department of Defense and the Maritime Administration, recognizing the potential military use of the Princess and Countess, have encouraged Cruise America to seek a legislative waiver of the laws, which is the customary procedure for reflagging commercial vessels. In short, the importance of S. 1197 to our nation's strategic mobility is not undermined by the fact that Cruise America was denied an administrative waiver of the maritime laws.

RESPONSE TO CERTAIN QUESTIONS REGARDING S. 1197

Does Cruise America have an agreement with Cunard to purchase the vessels? Is Cruise America a mere speculator that will resell the vessels for a windfall profit? These questions always seem to reappear and should be put to rest once and for all. Cruise America and Cunard have negotiated a preliminary agreement which is con-

tingent upon Cruise America's obtaining the necessary legal authority to operate these vessels in the U.S. coastwise trade. I wish someone could point out why Cruise America would be expending its efforts, time and resources and why Cunard would expose itself to financial risks if no sale were contemplated. Furthermore, Cruise America is very serious about the venture and does not intend to purchase the vessels and then turn around and sell them. Once the transaction is complete, the ships' value is apt be diminished until the new market is proven. To succeed in this speculative venture, Cruise America will be risking its capital to develop a new market in the highly competitive and price sensitive cruise market.

Will Cunard retain control of or have a beneficial ownership in the vessels? Cruise America, wholly owned by American citizens, will acquire the Countess and Princess from Cunard once the necessary legislative authorities are obtained, that is once this or similar legislation is enacted into law. Cunard has not asked for nor has any agreement been made whereby Cunard would take an ownership position in Cruise America or in the ownership of the vessels. In compliance with the requirements of the Documentation Act and the 1916 Shipping Act, at least 75 percent of the ownership will be American. In fact, and in all likelihood the vessels will be 100 percent American owned. Furthermore, to the extent that the American ownership requirements in the vessel documentation laws were violated by Cruise America, it would be subject to civil penalties under existing law.

What are the prospects that recent changes in the tax laws will encourage the revival of the American passenger ship building industry? We seriously question whether these changes in the tax code alone will stimulate any investment in shipbuilding. Two major changes are at issue. First, business deductions were reinstated for business meetings and conventions held on U.S.-flag cruise vessels. These deductions were available every year since 1958 except for 1982, however, and we witnessed no significant investment in new ship construction in those years.

Second, depreciation allowances for the purchase of equipment have been increased by the Economic Recovery Tax Act of 1981 to encourage capital formation. While these changes are favorable, they are not unique to the shipping business but available to all industries and do not create profits in the long run. In fact, the "at risk" provision and the demise of safe harbor leasing more than offset these advantages. No special incentives have been created to invest in passenger shipbuilding rather than in other areas. Thus, recent changes in the tax laws alone will not stimulate the domestic construction of passenger ships.

Let me clear up some confusion on the issue of overhaul work. Repair work was recently performed on the Countess at a shipyard in Malta. None of this work was performed to bring the vessel into compliance with U.S. standards prior to its sale and does not represent any attempt to avoid doing the conversion work in U.S. shipyards. The Countess was in great need of repair after her recent valiant performance on behalf of Great Britian in the Falkland Islands conflict. In order to operate again as a cruise vessel, it was necessary to remove certain military features and to repair and replace her cruise facilities. Thus, the Malta work was necessary so the Countess could re-enter the cruise trade. When Cruise America purchases the Countess and Princess, all conversion work will be performed in domestic shipyards.

Will reflagging the Princess and Countess give Cruise America and unfair competitive advantage over operators of certain smaller cruise vessels? No. These operators run cruises on much smaller vessels—ranging from aproximately 88 to 150 passengers, with a crew of about 10, in contrast to the 900 passenger and 350 crew per vessel capacity of the Princess and Countess. Also, the Princess and Countess will travel along deep-sea routes which the smaller vessels are incapable of pursuing. Finally, the Cruise America vessels will offer far more luxurious accommodations and more varied and numerous on-ship activities than the smaller lines. In our view, the promotion of "American cruising" by Cruise America can only assist the inland operators, and a working relationship will soon emerge similar to that found in the airlines between the majors and the "feeder" companies.

Are these vessels already available to the United States in times of emergency through operation of the NATO Treaty? The answer is no and maybe. First, the Princess is registered in the Bahamas which is not a NATO signatory and therefore is not an asset to the NATO shipping pool. Second, although the Countess, registered in Great Britain, is a NATO vessel, it would not be available to the United States with the same kind of assurance and dependability as would a U.S.-flag vessel. Generally, a NATO vessel is available to the United States only where a NATO theater is involved and the vessel is not in use by its own country. Thus, our access to a NATO vessel depends on the cooperation of our allies and other circumstances beyond our control. While the Countess may presently be potentially availa-

ble to the United States as a NATO vessel, both vessels would be immediately available if S. 1197 were enacted into law.

CONCLUSION

Thank you Mr. Chairman, for your interest in and support of S. 1197 and for holding these hearings today. In conclusion, Cruise America urges the enactment of S. 1197, which we believe would expand the American-flag cruise industry, create jobs and generate revenues, and contribute to our defense capability at no cost to the taxpayer.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. In view of the extensive repairs recently performed on the Cunard Princess, what work remains to bring the vessels into compliance with U.S. maritime safety standards?

Answer. In order to bring the vessels into compliance with U.S. Coast Guard (USCG) regulations, modifications must be effected on each vessel. Please note that the recent decommissioning of the Cunard Countess after its Falklands tour of duty will not reduce the volume of modification work referred to herein.

The Cunard Countess and Cunard Princess were contract designed to American Bureau of Shipping "ABS + A'I (E) AMS" and U.S. Coast Guard specifications by Knud E. Hansen I/S and constructed to fulfill the requirements of SOLAS 1960 Convention plus all IMCO amendments by Burmeister & Wain's Shipyard in Copenhagen, Denmark. The vessels were, however, ultimately constructed to British D.T.I. Lloyd's Register of Shipping + 100 A 1 + LAC specifications.

Unlike the situation encountered with the Independence and Constitution, the Countess and Princess are presently fully functional modern cruise vessels. The work necessary for reflagging will not therefore include any major renovation, but rather will involve the substitution of fully functional foreign equipment by new American equipment meeting USCG specifications.

Both vessels are built to Class I international standards. After preliminary review, the U.S. Coast Guard and J. J. Henry, the consultant retained for the project, have agreed to the feasibility of conversion and outlined the key areas where work will be needed. These include firemain systems, including fire pumps, fuel oil piping, lubricating oil piping, bilge and ballast system, lifeboat releases, sea valves, safety and relief valves, fire dampers, bulkheads and ducting changes, electrical system modifications, radio installation, lifesaving equipment and firefighting equipment. It is not the practice of the Coast Guard to make prior rulings regarding the acceptability of individual pieces of equipment or the measure and exact work to be performed. Our best estimate of the cost involved in overhauling the vessels at the time of conversion to U.S. flag is on the order of $5 million per ship.

QUESTIONS OF SENATOR KASTEN AND THE ANSWERS THERETO

Question. You have promised Great Lakes cruises if S. 1197 is passed. What is Cruise America's specific schedule for Great Lakes Service?

Answer. As Cruise America has testified before two Congressional Committees, it intends to operate the East Coast vessel in the Great Lakes during the summer months, most likely July and August. To date, no specific schedules for any geographic area, including the Great Lakes, have been finalized. I anticipate that on the Great Lake cruise, the vessel will visit ports such as Duluth, Milwaukee, Chicago, Muskegon, Mackinac Island, Detroit, Buffalo and others.

Question. Has a market survey been taken which indicates that cruising a 900 passenger ship on the Great Lakes will be profitable?

Answer. A vacation cruise study was commissioned in 1982 for the purpose of examining the potential market for major deep-sea passenger ships in the U.S. cruise market. The study's model of consumer potential indicates an annual potential passenger volume of 58,000 for the Great Lakes area. Assuming that only one third of the potential demand were received, this could mean an annual passenger volume of 19,333. It should be noted that the demand survey was made at a time when there was no advertising and no consumer awareness of Great Lakes voyages.

I would be willing to review the results of this confidential study in its entirety with you and your staff.

Question. Which Great Lakes ports already have terminals equipped to handle large passenger lines? Are any ports planning to build terminals to accomodate your ship?

Answer. Since no large modern passenger cruise vessels have ever operated in the Great Lakes, no cruise passenger facilities currently exist at any Great Lakes ports. However, ferry terminals and cargo facilities can easily be adapted for the purpose of embarking and debarking passengers. For example, both the Queen Elizabeth 2 and the S.S. Norway, the two largest passenger vessels in the world, operate on occasion from many ports, including Philadelphia, Norfolk, Newport, and Bar Harbor, which have no passenger facilities. Instead, these vessels use existing cargo facilities for loading passengers. Furthermore, because no customs formalities will be required on the Great Lakes routes, embarkation and debarkation procedures can be completed on board and do not require the use of passenger terminals. In short, only very limited facilities are necessary and the lack of availability of terminals is not a material factor in scheduling decisions.

Finally, several ports in the Great Lakes have expressed their desire to Cruise America to make any necessary repairs and restoration to existing facilities and piers in order to accommodate the vessels. The Port of Milwaukee, for example, has offered its full cooperation in converting an existing passenger ferry terminal.

Question. What assurances do I have that if S. 1197 passes you will sail into the Great Lakes? Will you be legally bound to sail into the Great Lakes before Congress acts? Will you legally bind yourself to sail into the Great Lakes when Congress acts?

Answer. I have testified before two congressional committees that Cruise America intends to operate one vessel seasonally in the Great Lakes. It is my good faith intention to operate in the Great Lakes. Cruise America is not legally bound to operate in this area nor would it agree to bind itself to service the Great Lakes or any other route. Based on the results of the marketing study, Cruise America believes that the heretofore unserviced Great Lakes cruise market holds great potential. As long as this market proves viable, Cruise America will continue to serve the Great Lakes.

Senator STEVENS. Mr. Ralph Bahna, President and Managing Director of the Cunard Line of New York City.

It is my understanding that you have appeared, Mr. Bahna, at the request of the committee to answer questions concerning the transaction. You have just heard Mr. Lambert's answers to my questions pertaining to the current state of negotiations, and the letter that he has referred to, and my questions about the past relationships with your company. Would you have any comments on those questions or answers?

STATEMENT OF RALPH M. BAHNA, PRESIDENT AND MANAGING DIRECTOR, CUNARD LINE

Mr. BAHNA. Any of the questions, Mr. Chairman?

Senator STEVENS. Those I directed toward Mr. Lambert. Did you have any contrary answer or any conditions on the answers that he has given us?

Mr. BAHNA. No, sir.

Senator STEVENS. Thank you.

Senator Inouye, Do you have questions?

Senator INOUYE. Just a matter of clarification. Do you feel that you are legally bound to sell your ships to Mr. Lambert?

Mr. BAHNA. With the Chair's permission, do you mind if I give you a 1-minute answer to that?

Senator INOUYE. Sure. Do you want to go off the record?

Mr. BAHNA. No, sir. I just want to give you a lengthier answer than a yes or a no.

First of all, good afternoon to all of you.

The business of passenger ships, as some of you may know, is quite a different business than cargo ships. As a passenger ship op-

erator, if you are even remotely interested in selling one of your ships, you do not disclose anything publicly or allow it to get public until everything is done. To do otherwise is a very expensive proposition, because you require a very happy crew and a full ship to pay your bills up to the time of delivery. And very little of what is collected in revenue for a passenger ship passes to the bottom line, and if you lose that revenue it takes you years to get it back.

In this particular sale, this project, we have done just the opposite of that. We have allowed Cruise America to use the name of first one of our ships last year and then this year both of the ships, and that is the reason why the agreement was amended this year to the February date, because it included the Cunard *Countess,* which was not in last year's bill.

We have done so without even being sure that this Congress would approve this legislation or without knowing the time in which they would approve this legislation. Yet we have done this. We have had a substantial amount of press publicity in the United Kingdom, criticism from trade labor unions that we have a working relationship with, uneasy crews, and uncertainty in the marketplace. Now, we have gone on a second year at this stage.

I only say all of this to point out to you that the cost to us has been very substantial and to emphasize that we are very serious about this transaction. We at this point in time have a preliminary agreement with Cruise America which reflects that we have substantially negotiated the terms.

The main contingency on our part is the passing of the legislation and the other necessary Government approvals. We have also asked Cruise America that we have the necessary lead time to honor published schedules, depending upon the time that the bill becomes law. It has been referred to as 9 months, but that depends on whether passage is this month or next month or next year or when. What I mean, is that last year was 1982, and this year is 1983 and we have that contingency in it.

Cruise America for its part have asked us to consider in the price the marketplace, particularly the financial marketplace, that will exist at the time when the sale will be made, as well as the restrictions that might be put on the operations of the ship in the coastwise trade. This has made it impossible to conclude the final price or the final transaction.

From our part, in answer to your question, we would be required, subject to the final agreement of the price, to sell these ships to Cruise America should the Congress approve this legislation.

Senator INOUYE. Your preliminary agreement was arrived at on February 10?

Mr. BAHNA. The latest version of this agreement, which included the *Countess,* was arrived at on the 10th.

Senator INOUYE. When did you begin your negotiations with Cruise America?

Mr. BAHNA. Senator, I believe this was the seventh draft of the agreement. We started negotiating with them concerning Cunard *Princess* early last year, 1982.

Senator INOUYE. Was Cruise America incorporated at that time?

Mr. BAHNA. I could not answer the precise date. I am sure that it was incorporated before the bills were introduced last year. I think

there is another cruise line, Senator, that has a very similar name, and I think you should check that. But I believe Mr. Lambert has agreed to give you the date of his incorporation.

From my recollection, it was formally incorporated before the Senate- and House-introduced the bills last year concerning Cunard *Princess*.

Senator INOUYE. I have here a document from Dun & Bradstreet dated August 20, 1983, Cruise America Lines, Inc., 2300 Las Olas Boulevard, Fort Lauderdale, Fla., 33316. Is that the address?

It says 2300 Las Olas Boulevard. Is that the address?

Mr. LAMBERT. That is correct.

Senator INOUYE. According to the August 20 report from Dun & Bradstreet, it was incorporated in Florida on the 31st day of January, 1983. Authorized capital consists of 10 shares common stock, no par value. Business started, July 1983.

Mr. BAHNA. Yes; I believe it was incorporated, Senator, before the bills were introduced. But I think that can be supplied this afternoon by Mr. Lambert.

Senator INOUYE. So you feel that you are to the degree possible legally bound to sell and Cruise America is legally bound to purchase?

Mr. BAHNA. Subject to their ability to raise the necessary finance, and subject to finalization of the price depending on the market conditions.

Senator INOUYE. You will not transfer title before the enactment of this measure?

Mr. BAHNA. We would not transfer title before we got paid, Senator, no.

Senator INOUYE. Assuming they are financially able to pay, would you transfer title before enactment?

Mr. BAHNA. Would we transfer title before enactment?

Senator INOUYE. Enactment of this measure, passage of this bill.

Mr. BAHNA. I do not know why we would not, if Cruise America is prepared to pay us. The one thing that comes to my mind is that if these ships are not going to operate in the coastwise trade, then where are they going to operate, and are they going to operate in competition with our own ships? We would have to look at that all over again.

Senator INOUYE. Thank you very much.

Mr. BAHNA. With your permission, could I just comment on some statements that were made about this Malta refit?

Senator INOUYE. Oh, before we proceed with that, may I request that I be permitted to submit questions?

Senator STEVENS. Yes; we have made that request of all witnesses in this hearing, that you do give us the courtesy of response to questions as quickly as possible.

And yes, we would be glad to have your comments on the refit.

Mr. BAHNA. There has been a lot of conversation, both about the Falklands and the Malta refit, and it really is not a very complicated situation. The Cunard *Countess* was in fact chartered by H.M.G. to shuttle troops just following the end of the military operation, to take those troops to the garrison. Airplanes could not land at Fort Stanley and Cunard *Countess* performed sealift operations.

The ship operated for actually 8 months without a stop and without interruption of schedule, which was a long service. The work that was done in Malta had absolutely nothing to do whatsoever with work that would be required for intracoastal trading. Sixty percent of the work that was done was Government work.

Forty percent of the work that was done was our own work. The majority of our own work had to do with restoring the nightclub, which we were subsidized partly for because it had been damaged when helicopters landed. We expanded the nightclub at that time and some other facilities were done. But it has absolutely nothing to do with the work required for U.S. intracoastal trading.

The other thing was the comment about the monopolies matter concerning Trafalgar House and P&O. Our discussions about the sale of *Countess* and *Princess* occurred long before Trafalgar decided to take over P&O. It has absolutely nothing to do with it. Trafalgar is continuously doing rather substantial asset acquisitions and disposals. This transaction is no larger or smaller than those transactions.

The commission itself is only determining whether that merger of two large British companies is in the public interest, and it has nothing to do with the subject at hand.

Senator STEVENS. I think the most difficult thing we have is the implied assertion that the Cruise America Line, Inc., is a front for Cunard which will operate these vessels. Are you in any way involved——

Mr. BAHNA. We have no interest in ownership of Cruise America or the vessels to be operated in U.S. coastal trade. We have not been asked to take an ownership interest. We have asked for the right of first refusal to supply marketing-related services, provided that we are competitive.

We would have no involvement in the operation of the vessel, the marine functions of the vessel, the management of the company, or the ownership of the ships.

Senator STEVENS. Thank you. That answers my questions. I appreciate your courtesy.

Mr. BAHNA. Thank you, Mr. Chairman.

[The following information was subsequently received for the record:]

CUNARD LINE LIMITED,
New York, N.Y., October 5, 1983.

Hon. TED STEVENS,
Chairman, Merchant Marine Subcommittee, U.S. Senate, Committee on Commerce, Science and Transportation, Washington, D.C.

DEAR SENATOR STEVENS: Thank you for inviting me to speak before the Senate Subcommittee regarding S–1197 on 29th September 1983.

I have been asked to respond to a written question. Also, a number of statements were made in the hearing pertaining to Cunard. I have provided answers to the written questions and also to the various other statements in the document attached to this letter.

I would be most grateful if you could add this statement to my testimony.

Yours sincerely,

RALPH M. BAHNA,
President and Managing Director.

Attachment.

The following are answers to questions that pertain to Cunard which were raised during the course of the hearing:

CUNARD'S SALE OF CUNARD COUNTESS/CUNARD PRINCESS

Question. Is Cunard selling its ships to gain tax advantages?

Answer. Cunard line loses tax advantages by selling the ships. U.K. tax laws allow for immediate writeoff of investments in shipping in the first year, but yet require recapture on sale.

TRAFALGAR HOUSE TAKEOVER OF P&O

Question. Is Cunard selling the ships because it needs cash to finance its takeover of P&O?

Answer. P&O is a major U.K. conglomerate with $2 billion in gross assets and sales and for which Trafalgar House, Cunard's parent, had offered $450 million in a stock swap. This takeover by Trafalgar commenced well after our initial discussions with Cruise America and does not directly relate to Trafalgar's subsidiary, Cunard Line. Trafalgar's offer involved no cash in any case.

NO RESTRICTIONS ON CUNARD'S ABILITY TO SELL

Question. Does the Monopolies Commission investigation restrict Trafalgar/Cunard from selling the ships?

Answer. Trafalgar/Cunard are free to buy and sell assets and have recently made a number of sizable transactions in various divisions while the Monopolies investigation has been taking place. This has included transactions involving both cargo and passenger vessels.

EXISTING LABOR AGREEMENTS

Question. Does Cunard wish to sell the ships to get rid of unfavorable labor agreements?

Answer. Cunard would not be the operator of these ships under U.S.-flag and in any case U.S. wages are higher than either British or Bahamian contracts.

CUNARD COUNTESS AND CUNARD PRINCESS PROFITABILITY

Question. Does Cunard wish to sell the ships because they are making losses?

Answer. Both Cunard Countess and Cunard Princess are in profit.

CUNARD COUNTESS AND CUNARD PRINCESS NOT SUBSIDIZED

Question. Was the construction of the Cunard Countess and Cunard Princess subsidized?

Answer. The Cunard Countess and Cunard Princess were not subsidized either in construction or operation. It has become common international practice for shipowners to build ships in yards worldwide. There are no retrictions by the British Goverernment as to where Cunard may build its ships, even those to be placed under British flag.

CUNARD COUNTESS'S ROLE IN THE FALKLANDS

Question. Continued reference has been made to Cunard Countess's operation in the Falklands and its subsequent refit and restoration in Malta.

A. Military service/Malta refit

I. Operation

The Cunard Countess operated under charter to Her Majesty's Government (after the military hostilities ended) and operated for eight months shuttling troops between Ascension and Falkland Islands, traveling 3,600 miles every nine days. The ship was not berthed in port during this time and was in continuous operation, without missing schedule, and the vessel and her crew were highly complimented by the Naval and Military authorities for this performance. All troops, supplied and personnel were taken on and off the vessel by helicopters which landed on the vesses's deck. The vessel, while not built for liner service, performed well. The last voyages of the vessel were passenger voyages which were referred to as "Pilgrimage Voyages" which took the next of kin to visit the graves of the servicemen who had died in the South Atlantic conflict.

II. Malta refit

After carrying troops for this length of time, the public rooms and passenger cabins needed refurbishing. Helicopter decks, electronic equipment, at-sea fueling, refrigerated containers, extra water producing capability—all required change-back to normal service. Furthermore, the normal annual refit needed to be carried out, having been postponed for six months. In all, about $7 million was spent by Cunard, including the Government's work. This Government work including annual repair work amounted to over $4 million. As Government had altered the night club to make room for helicopter rotor blades, this room had to be restored. Cunard was required to replace the ship's four auxiliary generators for which replacements had been ordered in 1982. Other additions to the vessel were rather minor and had nothing whatsoever to do with U.S. intracoastal service.

All work required for intra-coastal service is outstanding.

Cunard's other passenger vessels are all undergoing the addition of new facilities this year, except for Cunard Princess. No significant expenditure will be made on Cunard Princess this year other than the normally required annual refit.

TAX TREATMENTS

Question. It was stated that Cunard vessels are written down over seven years and hence have zero book value.

Answer. U.K. tax laws permit a full writeoff in the first year. For management accounting purposes we use a 20-year writeoff.

FORWARD BOOKINGS

Question. Has Cunard scheduled and booked any cruises for these two vessels for the coming months, or is Cunard offering bookings?

Answer. Cunard have published schedules and are heavily investing in advertising for voyages through September 1984. It is common practice for passenger ship operators to publish schedules in this way so that prospective passengers might begin to plan their vacation a year in advance. To do otherwise would run the risk of not carrying the necessary high load factors required to make a profit.

GREAT LAKES POTENTIAL

Question. It was stated the vessels could not make a profit in Great Lakes service because there are no specialist passenger ship docks and because others who tried Great Lakes service have gone out of business.

Answer. Since there are no operators of large passenger ships in any market in the continental U.S., this question can be raised about most U.S. markets. Addressing the general question, I would point out that any regular service would obviously be welcomed by local authorities and adequate facilities could easily be arranged and, as is oftentimes the case, cargo facilities could be modified rather quickly to be fully adequate.

COST OF REPLACEMENT

Question. There has been an enormous amount of testimony concerning the cost to replace Cunard Countess and Cunard Princess.

Answer. It is our judgement that these vessels could be replaced on the same standard in fewer than six yards outside the U.S. and that approximate cost would be around $120 to $130 million apiece, for a total of about $250 million abroad. Because this is such a high figure, Cunard have elected not to expand by building new ships for its services but rather have chosen to acquire existing quality tonnage. In other words, even using non U.S. yards we would find it difficult to contemplate a profitable operation of such two vessels in intracoastal service, at these prices for the next few years. We have had considerable experience with ship work in several U.S. yards and while we would not wish to speculate, it is clear that shipyard work of a comparable standard is still substantially cheaper abroad. To illustrate, if two near identical vessels were having the same work done simultaneously, one in Europe and one in the U.S., the U.S. premium would be 55 percent. The strong U.S. Dollar is one main factor.

In the testimony it was stated that a U.S. company could duplicate Cunard Countess and Cunard Princess in the U.S. for $150 million at National Steel and possibly for $115 million at another yard. If this is the case, the U.S. company would be able to build these vessels on a competitive basis in the U.S. and could feel free to trade them worldwide. Cruise America therefore, poses no threat to such an operation.

We note, too, that an exemption was put in the House bill which restricted Cruise America from operation in the Gulf Coast should another U.S. company choose to build vessels in domestic yards.

CONVENTION TAXES

Question. There have been references made to the Convention Tax Legislation causing a reemergence of the U.S. passenger ship trade.

Answer. Foreign flag operators have been restricted from tax deductible conventions at sea for the last three years which, while discriminatory vis-a-vis overseas resorts and destinations which can qualify for tax deductibility, does not appear to have stiffled the foreign flag operators' growth which has been the greatest since the time the legislation passed.

CUNARD COUNTESS AND CUNARD PRINCESS DESIGNED FOR U.S. TRADE

Question. Is it true Cunard Countess and Cunard Princess are ideally suited for the intra-coastal trade?

Answer. It is correct that Cunard Countess and Cunard Princess were originally designed for a U.S. company and that Cunard picked the designs. They are highly maneuverable, shallow draft vessels and would be ideal for Cruise America's purposes. Relatively speaking, these vessels can be more easily made to comply with U.S. Coast Guard and American Bureau of Shipping requirements.

CUNARD'S NEGOTIATIONS AND CONTRACTS WITH CRUISE AMERICA

Question. It has been questioned whether Cruise America have definite arrangements with Cunard for purchase of the vessels.

Answer. Cunard commenced initial discussions with principals of the later-incorporated Cruise America Line concerning the sale of Cunard Princess in early 1982. Prior to serious discussions, Cunard confirmed for its own part the validity of Cruise America's proposals including review of the U.S. Coast Guard requirements and proposals from potential financiers. As a result of its review, Cunard agreed to go forward with this project.

Cruise America subsequently requested that Cunard name Cunard Princess in legislation and stressed that this public exposure was essential to the passage of the Bill. The Cunard Line Board of Directors authorized this in October 1982. Cruise America's representations with respect to Bill passage were not realized.

In January 1983 Cruise America asked for permission to extend its agreement so that it could pursue an Executive Waiver on defense grounds. Although an extension was agreed by Cunard the Waiver was not granted.

Cruise America however, had felt that there was a strong groundswell of interest in its starting a new U.S.-flag business around the country and believed that, if Congress were given enough time to review this in an orderly fashion, the legislation would pass. Further, Cruise America negotiated to include Cunard Countess.

Cunard updated its position with regard to Cruise America's proposals for financing and the Cunard Board agreed to go forward with legislation naming two ships. At this time, preliminary agreements were revised between the parties covering purchase and sale of Cunard Countess and Cunard Princess.

In June, cruise America demanded Cunard make certain information public. Cunard declined, but agreed to write the letter to Cruise America dated 23 June which was supplied to the Chairman of the House sub-Committee considering the Bill. It is important to stress this letter was intended to say the least possible. I have already testified why it is extremely difficult for Cunard to make public statements about passenger ship sales. In short, passengers do not book cruises on ships that are about to be sold and crew do not serve customers well when they are not sure of their future employment.

The Cunard Board has already agreed the naming of our ships for two successive years which, bearing in mind the highly speculative nature of this legislation, is totally contrary to practice and is certainly a major commitment to support this legislation.

As indicated in the oral testimony, Cunard have been seriously criticized by the U.K. press, and trade unions, and we are facing uncertainty with our crews and the marketplace. Upon inquiry on this subject Cunard have advised certain officials in U.K. that passage by the Congress of Cruise America venture remains highly speculative, that Cruise America require other governmental approvals after Congressional approval, but that it is prepared to complete the sales if Congress grants approv-

al. In that event, jobs and published schedules would be protected by substitute vessels.

Cunard have definite arrangements with Cruise America. We have a preliminary agreement which covers the terms of sale for both vessels and which is conditional on Government approvals. The delivery dates will allow both parties to have sufficient lead time for marketing purposes.

Cunard will abide by its agreement if Congressional approval is granted this year but Cunard's Board will not authorize an extension of this agreement beyond the end of this year.

Cunard will not allow Cruise America to reveal actual price details at this time. Prices in any event will be adjusted depending on when the legislation passes, on market conditions at the time and on the operating restrictions that are put on the vessel in legislation or through Government approvals. While this is an unusual transaction, neither the buyer nor the seller knows whether they will be allowed to carry out this transaction nor when it will take place.

Neither Cunard nor any affiliate directly or beneficially own shares in Cruise America, nor do we plan any ownership in the vessels, nor involvement in the management of this company or its vessels, nor will we operate the vessels. Cunard have the right of first refusal to provide marketing and related services to Cruise America or act as a wholesaler or bulk buyer of berths whatever is most effective as permitted by law.

It is our understanding that Cruise America will finance these vessels through either a public or private offering.

We have periodically been assured of the continued preparedness to finance the transaction of the four financial institutions with whom Cruise America has had discussion. At this time we remain satisfied that Cruise America can raise the necessary funds. These financial institutions are aware of Cunard's and Cruise America's agreement concerning Cunard's right to provide marketing services.

Cunard is not discussing selling these vessels to any other companies nor do we see any opportunity for Cruise America to do so. U.S. Registration would be, at best, a hinderance to sale of the vessels to foreigners. Nor does there appear to be any ready market available in the U.S., that we are aware of, for the purchase of U.S. documented vessels at Cunard Countess' and Cunard Princess' substantial market value (in fact these vessels would become more costly as a result of expenditures to meet U.S. standards). There will be heavy risks to an American operator, particularly in the first two years, in the intra-coastal trade. Further, the advertising commitment will be disproportionate as compared to normal trading.

Regarding the operation of these vessels, we are satisfied that Cruise America has a very able Board and that it has, or can acquire, necessary middle management. Certainly, Mr. Lambert himself is extremely knowledgeable about cruise ship operations.

In sum, Cunard will sell these vessels if legislation passes this year. Cunard will not in any way control this business or these ships. We see no way we can be involved in ship re-sales, nor do we see an opportunity for Cruise America to do so, Cruise America have committed themselves to operating these ships. Once the necessary approvals are obtained, Cruise America could commence advertising and marketing of its cruises for voyages commencing in, we would guess, late 1984.

Senator STEVENS. Our next witness is Mr. Jesse Calhoon, president, Marine Engineers Beneficial Association.

STATEMENT OF JESSE CALHOON, PRESIDENT, MARINE ENGINEERS BENEFICIAL ASSOCIATION, ACCOMPANIED BY GLORIA RUDMAN

Mr. CALHOON. Thank you, Mr. Chairman.

I have with me at the table this afternoon Gloria Rudman, who has some technical knowledge that I do not have on the matters that I am going to testify on.

Mr. Chairman, today I testify on behalf of the national Marine Engineers Beneficial Association. I am also honored to represent the International Organization of Masters, Mates and Pilots, the International Longshoremen's Association, the International Long-

shoremen and Warehouse Union, the American Radio Association, the Radio Officers Union, and the National Maritime Union.

We strongly oppose S. 1197, which would allow the Cunard *Princess* and *Countess* to be documented in the United States and operated in our coastwide trade. We urge the subcommittee to reject this bill. It is bad for our merchant fleet, it is bad for our shipyards, it is bad for our country. Personally, I find this bill and its companion measure in the House to be unconscionable.

It is distinguished by its lack of foresight. It is stamped with special interest, and it is cemented by deception. For any one of these reasons, rejection is in order. With all of these reasons present, rejection is compelling.

First, we urge rejection of this bill because it seriously undermines the Jones Act, on which so much of the U.S. fleet depends. It will open the door to wholesale exceptions that could destroy a valuable segment of our fleet and an important commercial shipbuilding base. Where will the line be drawn when some other operator makes a similar proposal?

If this measure succeeds, the lessons will not be lost on others: Use Americans as a front for foreign investors to penetrate the trade. Use labor unions for support by waving short-term job promises before their eyes to obscure long-term risks. Use coalitions of ports, repair facilities and others for support, when some of these promised beneficiaries will see the ships only in travel brochures, and most repair facilities will always be the bridesmaids but never the bride.

These tactics of destruction by clever exception must not be permitted. In this connection, it would be ironic if the agent of destruction of the Jones Act were Cunard. Some of us remember that Cunard has been a most vicious competitor of the U.S.-flag fleet.

Few, however, now recall that one of the prime reasons for the Merchant Marine Act of 1936 was to combat the abuses of Cunard. The Black Commission report is rife with Cunard's name and abuses. In the years that followed, U.S. line after U.S. line, such as the Munson, Savannah, Delta, Grace, APL, were forced to leave the passenger business, in no small measure because of longstanding rules for U.S. building and repair.

Now, when all of these lines are gone, why should Cunard be entitled to special largesse from this Congress, largesse that, by undermining the Jones Act, will undermine the rest of the U.S. fleet as well?

I would like to draw the subcommittee's attention to an article published in Lloyd's List dated June 17, 1983, which states that "Cunard is said to be interested in acquiring a 50 percent stake in the company." The company is Cruise America Line, the company behind S. 1197. If there was ever a case of a child murdering his parents and then throwing himself on the mercy of the court because he is an orphan, this is it.

Second, we urge rejection of this bill because it would destroy what may well be the rebirth of a U.S.-built, U.S.-flag passenger fleet. At least five companies have informed the Congress that they are prepared to use U.S.-built ships in the domestic cruise trade, but only if S. 1197 is rejected.

These prospective operators have serious commitments, indicating that it is still possible to build American for cruise trade. They also indicate that passage of the bill and the consequent financial advantage to foreign-built ships will almost certainly decide whether these plans go forward here at home or stop dead in their tracks.

Mr. Chairman, I would like to take a little aside here and state that in the financing of ships time is very important. The typical foreign flag ship is financed on 7-year financing. These ships, the *Countess* and the *Princess*, just happen to be 7 years old. That means they would be completely paid down. They would come in at a zero book cost.

The American companies building in American yards or major conversions in American yards would have to come in at a much higher book value, and the lines of competition would not be fair.

I find it a little short of incredible that Congress might actually favor Cruise America Lines, which exists apparently only on paper, which seemingly has little net worth, and which is merely a vehicle for two vessels to get a head start in a market when everyone else is expected to play by far more stringent rules. I find it incredible that this company would be favored over others that intend to use U.S.-built ships, that have already invested hard cash on the proposition that the time-honored rules would remain honored.

I took with great interest the president of Cunard USA saying that it is not a common practice to submit a business plan while they are here making a special pleading to this bar to create a unique practice that has never been done before, to allow a foreign-built ship to come into the Jones Act in the passenger trade coastwise. It is not commonly done in business, but this has never been done. But he does not want to submit the contracts.

In another case, the Masters, Mates and Pilots union purchased in 1980 the U.S.-built SS *Monterey* for U.S.-flag operation in the domestic cruise trade. Countless other options have arisen to reflag the vessel foreign, but the MM&P has been clearly saving its vessel for the domestic cruise trade.

It should be noted that the MM&P purchased this vessel with union dues and has spent almost $6.5 million to warehouse it until a qualified cruise ship operator completes the private financial arrangements. All of these investments will be for naught if S. 1197 becomes law. This seems to be very strange way to rebuild our merchant fleet and a suicidal way to encourage investment in U.S. flag and U.S. yards.

Mr. Chairman, it would be one thing if no companies wanted to build American. Mr. Lambert and his supporters have tried to convince others than this is true. Indeed, it is central to their case.

But the simple truth is that there are U.S.-built alternatives. These alternatives will provide thousands of U.S. seagoing jobs, they will add seven or more U.S. ships instead of two, they will provide a massive infusion of jobs for the U.S. commercial shipbuilding industry.

In this context, passage of S. 1197 is incomprehensible. It denies us ships and jobs when both are scarce. It perverts every measure that Congress has ever enacted to support our national fleet.

Third, we urge rejection of this bill because it will ruin one of the few avenues that keep our commercial shipyard mobilization base alive. For a variety of reasons, and most certainly not efficiency alone, foreign shipyards can turn out low-cost ships. We cannot. It is not an American disease; it is an ilness afflicting shipyards in virtually every western country. It is just impossible to compete, even if you are just as efficient, with countries employing inexpensive Third World labor or using massive subsidies to sell ships for less than the sum of their component parts.

Jones Act shipbuilding is the one way to keep our shipyards in business, unless we want them merely to become appendages of the U.S. Navy. Every member of the subcommittee knows the grim statistics of today and what they portend for years to come.

It defies logic and common sense, especially when Americans have told this subcommittee that they want to build American, to crush this one opportunity. In this connection, I should note that the *Countess* was recently renovated for $10 million—insuring that significant repairs or refurbishing contracts will not soon be in U.S. hands.

Fourth, we urge rejection of this bill because it is detrimental to our security. If the Jones Act is violated, we will not gain two militarily useful ships, but lose possibly seven vessels or more. All of these ships will be refit or constructed in U.S. yards. They will provide a diverse fleet of passenger ships for military use, not just two vessels. They will be built from the bottom up with U.S. defense features in mind, not added as an afterthought.

Mr. Chairman, I must say I listened with intent interest as Mr. Lambert was testifying to the qualifications, or qualifying things he was going to do to the ship. But not once did he say that he was going to put in U.S. Navy requirements for merchant ships being built in this Nation or being built foreign.

One requirement of the U.S. Navy is that there is no cast iron fittings in the ship. On a brandnew ship being built, where you do not have to go in and take out the old fittings, that is about a $750,000 requirement. To remove the old fittings and put in new cast iron fittings would probably triple that requirement. And that is only one of the requirements of the Navy.

So when they say useful for national defense, that is the reason that the Navy will not say these ships are useful, because they do not have the deck strength and the other steel requirements that the Navy requires in any ship that they want to use in an emergency.

And incidentally, these ships were not used in the Falkland Islands invasion. They were used as passenger ships after the Falkland Islands invasion, carrying troops to the Falkland Islands. There were three passenger ships used in the Falkland Islands invasion. There was the *Queen Elizabeth II,* the *Canterbury,* and a ship with a very African name. The ship with the very African name was used as a hospital ship.

I talked to the executive vice president of the *Canterbury,* that was used in the actual invasion. He told me personally: Jesse, I was absolutely amazed at how clean that ship came back. We did not even have to vacuum the carpets. The troops kept it so clean, we could not even make a claim on the government for refitting. And

this ship was used after the invasion just to ferry troops down, not as an invasion ship.

And I got these facts on the invasion from two sources. I got them from the vice president of Oceans and I got it from a navy captain who was in the invasion who was briefing the senior naval officers in Little Creek, Va. about a month ago. And they listed each specific ship that was used.

This leads to the fifth reason why this bill is unconscionable. You, Mr. Chairman, have proposed on behalf of the administration legislation that would allow U.S. operators in international trade to build and acquire vessels foreign and still receive operating subsidies.

Unless hundreds of millions, perhaps billions, of dollars are allocated in this budget for construction subsidies—and we know that there is neither support nor money for that—then foreign building is the only way you will ever see very many new U.S.-flag ships. Indeed, I find it most ironic that those who oppose build abroad and support S. 1197 will draw us inexorably toward the day when the only U.S. ships are painted grey and manned by U.S. Navy sailors.

This proposal, an integral part of the President's maritime program, has yet to be acted upon. Yet meanwhile this special interest bill is being guided expeditiously up the ladder. This is not the way to a coherent revitalization. It is, however, the sure way to disaster as everyone abandons ship and swims for his own life preserver.

Mr. Chairman, we believe that these five considerations justify speedy and total rejection of this bill. We would, however, like to make three additional points that bear strongly on this matter.

Proponents of this scheme have dangled the prospect of regular visits to Great Lakes ports. This prospect has helped to win support and it is completely unsubstantiated. It is too costly for ships such as these to operate in the Great Lakes. There are no existing adequate passenger terminals and none will be built for just this traffic. Numerous U.S. and foreign companies have already tried and failed to operate Great Lakes cruises.

Since the peak cruise season elsewhere is summer, it is disingenuous at best to claim that these vessels will also operate in the lakes, where the sailing season is limited by winter. One ship cannot be in two places at one time.

This brings me to my second point. Proponents of this Cunard ship plan have not been shy in stretching the truth to the limits and beyond in order to make their case.

For example, they claim no one wants to build American or use a U.S.-built ship, when the contrary is a matter of public record.

For example, they claim that the recent work done on the *Countess* in Malta was merely demilitarization, when the truth is that it was extensive and involved major renovations.

For example, they claim that these vessels were involved in the Falkland Islands military campaign, when the truth is that the *Princess* was never involved and the *Countess* involved only after the fighting ended.

Finally, for example, they claim that Cruise America received estimates of $250 and $400 million and delivery schedules of 5 to 6 years to construct a luxury vessel compariable to the *Princess* and

Countess. Yet, when 27 U.S. shipyards were queried by Congressman Jack Fields of Texas, the average estimated construction cost was far below those figures and delivery time was 2 years, not 6.

My third point concerns the arrangements for these ships and the lack of detailed scrutiny they have received. Rather than summarize a series of questions, I would ask that the subcommittee accept for the record three House committee documents:[1] a letter from Representative Fields to Representative Mario Biaggi dated August 25; a response from Robert Lambert dated September 7; and a memorandum to the Subcommittee on Merchant Marine, again from Representative Fields.

They speak for themselves, more eloquently than I can. They reveal many unaswered questions. They demonstrate excessive haste and deficient investigation. They demonstrate a curious rush to judgment pushed by proponents as if to cover up the flaws that more careful consideration would reveal.

I commend this set of correspondence to you and the subcommittee, Mr. Chairman. It is more than revealing. I find it devastating.

Senator STEVENS. We will accept the letters and print them in the record.

Mr. CALHOON. Thank you, sir.

I would also draw your attention, Mr. Chairman, to one aspect of this Cunard bill that has not attracted the attention that it merits. This bill legislates property rights to Cunard and its assigned agent. By this I mean the exclusive right to engage in the cruise and convention business along the four U.S. coasts would be given away to one group.

In all my years as a union official, I can never recall Congress considering such an exclusionary right for the maritime industry. This is wrong. This is bad business. It is time to evaluate deliberately the overwhelming implications of this bill and face the problems of the industry as a whole.

Thank you Mr. Chairman.

Senator STEVENS. Thank you very much. I gather you are opposed to the bill.

Mr. CALHOON. That is the understatement of the year.

Senator STEVENS. We have not had any new passenger ships built in U.S. yards since 1958, and I understand we are going to hear from some other witnesses here. Do you really believe that this bill, if enacted, would jeopardize the possibility of U.S. shipyards reentering the area of building ships for the domestic trade, or cruise ships for the domestic trade?

Mr. CALHOON. Yes, I do, sir. The economics, the real economics, the heavy economics of operating ships is the capital costs, and if the capital cost is equal and if all are starting at the same line, then the most ingenious and the most efficient will win.

But when you are starting at unequal capital cost lines, the one with the lowest capital cost could be the worst operator and still survive. And these ships being 7 years old, they are obviously paid off, with no capital cost.

Some of the people that will be testifying are talking about building brand new ships, at a capital cost in excess of $100 million. The

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[1] See House Merchant Marine and Fisheries Committee hearing Serial No. 98-18.

capital, the cost of that capital, will run $15, $18 million a year before you get to the opeating cost. Nobody could operate under those kinds of handicaps, where one has an operating capital cost of $15 to $18 million a year and another has zero.

The cost of the crew on the ship will be $3 to $4 million. So the capital cost will be four to five times greater than the total crew cost. And by getting that type of a lead, it is the type of a lead that time has an effect on, and the capital cost is the tremendous killer for anybody else coming in.

And if we start—Mr. Chairman, we are going to have to face this eventually. If we start transferring in foreign flag ships, then this will go right across the board for every type of ship. It will not be the new ships, it will not be the 7-year-old ships; it will be the 20-year-old ships or the 30-year-old ships.

If you put a limit on the age that the ship can transfer in, the next Congress you would be pushed right up to that limit and there would be requests to make that limit longer, older. Because when you get in a fight over the age of ships, you will wind up with the oldest in the world because they have the least cost.

Senator STEVENS. Senator Inouye, do you have questions?

Senator INOUYE. Yes, I have one question if I may.

Mr. Calhoon, you have indicated that there are seven companies willing to put seven cruise ships into operation.

Mr. CALHOON. Yes, sir.

Senator INOUYE. I would assume from your statement that these companies are not only desirous of putting these ships into opeation, but are financially and legally able to do so?

Mr. CALHOON. I could not testify to that, Senator. I think so, but I have not read their financial statements. I am not privy to their financial commitments. I think they are honest gentlemen and I have taken them at their word.

Senator INOUYE. You have named two in your testimony, the *Contessa* and the *Monterey.*

Mr. CALHOON. And the *United States.*

Senator INOUYE. And the *United States.* Can you give us the names of the other four or the companies involved?

Mr. CALHOON. It is five companies, with commitments to build seven ships. It is U.S. Flag Ships, Inc., and American Cruise Line, Inc.

Senator INOUYE. And these companies presently are desirous of getting into the cruise business?

Mr. CALHOON. Yes, sir.

Senator INOUYE. Are you convinced that our American shipyards are capable, as Congressman Fields has indicated, to build these ships in a way that would make the cruise business profitable?

Mr. CALHOON. Yes, I am. And I was privy to see some prices this morning that absolutely convinced me that the shipyards are serious and they have sharpened their pencils and they are giving much better prices than anybody expected and much less time.

Senator INOUYE. Thank you very much, sir.

Senator STEVENS. Thank you very much. We appreciate you being here.

[The following information was subsequently received for the record:]

NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION,
Washington, D.C., October 7, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During consideration last Thursday, September 29, of S. 1197, one of the witnesses attempted to represent falsely the reasons behind National MEBA's opposition to the Cunard bill. He claimed that our failure to support the bill was nothing more than internecine fighting among maritime union interests. To corroborate this misrepresentation, he dredged up H.R. 14583, a bill to reflag the *Cunard Adventurer* introduced in 1976 by former Congresswoman Leonor Sullivan, then chairman of the House Merchant Marine and Fisheries Committee.

I believe, in all candor, Mr. Chairman, that this matter has no relevance to S. 1197. Nonetheless, I would ask that this letter be entered as part of the record, as an addendum to my testimony, in view of the inferences set forth by one of the witnesses.

MEBA advocated that bill seven years ago, and, in fact, had signed an agreement with Cunard representatives to represent the vessel's licensed officers if the *Cunard Adventurer* was brought under U.S. flag. Yet, the witness implied that MEBA's advocacy of that bill seven years ago is inconsistent with our position on S. 1197 today.

Needless to say, there are similarities between the two bills. H.R. 14583 would have allowed the *Cunard Adventurer*, a foreign-built, passenger vessel to be documented as a U.S.-flag vessel to engage in U.S.-flag passenger service restricted to the intra-Hawaiian Islands cruise trade. This legislation, however, differed markedly from S. 1197 in that it contained a provision that the owner of the *Adventurer* must agree to build any replacement vessel in the United States.

During recent House Merchant Marine and Fisheries Committee action on H.R. 2883, the House companion to S. 1197, an amendment allowing the *Cunard Princess* and the *Cunard Countess* to enter the coastwise trades predicated on a similar U.S. vessel replacement scheme was overwhelmingly defeated. That amendment, offered by Representative Jack Fields (R-TX), was voted down because the bill's primary beneficiary and leading House supporters would not agree to it.

We favored the *Cunard Adventurer* bill for two reasons: it would have provided immediate jobs for U.S.-flag merchant officers and crew in the short term, and stimulated shipbuilding in the long run. Its vital U.S. replacement requirement would have left the Jones Act essentially intact. This is not true of the Cunard bill.

MEBA favored another Jones Act waiver bill about that time as well. It was a bill that authorized the State of Alaska to operate a foreign-built passenger ship between Alaskan ports and Puget Sound. That law called for a binding contract to build a U.S. replacement vessel. That replacement ship, long since in operation, created seafaring employment, contributed income for our economy, and it was good for U.S.-flag operating and shipbuilding overall. In other words, the ship replacement provision worked. Yet, this replacement condition—demanded then of the State of Alaska—is not true of the Cunard bill.

The *Cunard Adventurer* bill went nowhere. There were no hearings, no mark-up sessions and no documented legislative history of any kind. This was because both Cunard and the chief operating officer—the same "chief operating officer", Mr. Robert L. Lambert, who is asking today for another special waiver—would not support the important vessel replacement concept. At this point, MEBA could no longer in good faith lend its support for H.R. 14583. Notwithstanding the fact that MEBA had contractual assurance that the officer manning would be ours, we withdrew our support. The bill was never acted upon, and the Cunard/Lambert plans were abandoned. The bill, without a provision calling for a new U.S.-built passenger ship, was not healthy for America's merchant marine—just as the present Cunard bill is not.

Sincerely,

J. M. CALHOON, *President.*

Senator STEVENS. We now have a panel discussion of Mr. Dudley Briggs of the Contessa Cruise Line and Mr. James Kurtz of Washington, D.C.

Gentlemen, we are happy to have you here. We still have your testimony and that of three others, so we would appreciate it if you could summarize your testimony and then we will put your complete written statements in the record. We do not want to be cutting you off short, but we want to finish this hearing today because

we cannot get another hearing date squeezed in here for at least another 3 weeks.

I appreciate your appearance. Mr. Briggs.

STATEMENTS OF DUDLEY R. BRIGGS, CONTESSA CRUISE LINE, INC.; AND JAMES L. KURTZ

Mr. BRIGGS. Thank you, Mr. Stevens.

My name is Dudley Briggs. I am president of Contessa Cruise Line and my testimony is 5 minutes. I would like to give that if I may. I do not have a summary of it.

Senator STEVENS. Yes, sir. Just proceed any way you wish.

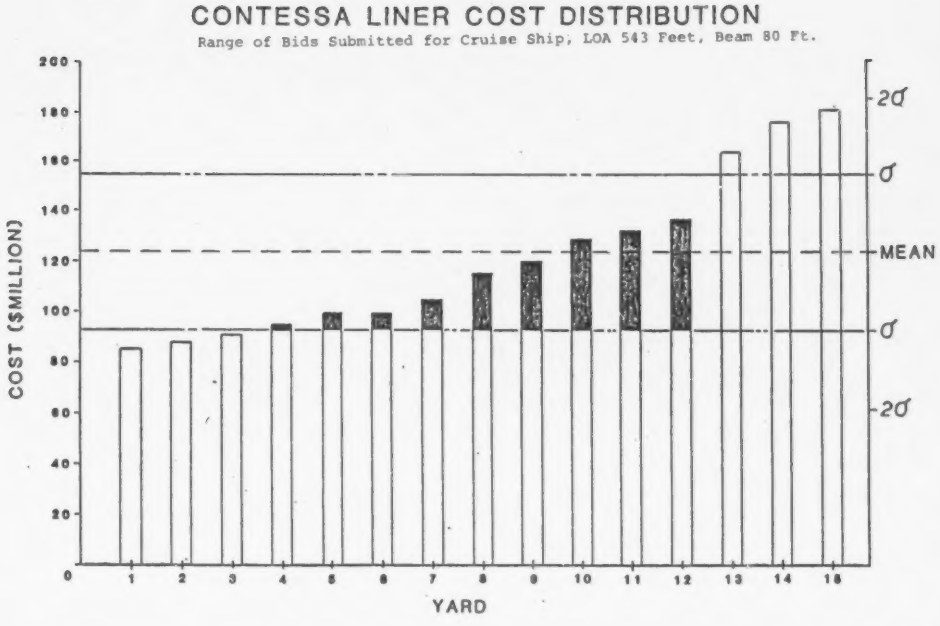
Mr. BRIGGS. Thank you.proponents argued that there were no prospects for building U.S.-flag cruise ships in this country because U.S. shipyards could not compete with foreign shipyards. A cruise ship equivalent to the Cunard sisters would cost $250 to $400 million and take 5 years to build, the story went.

Now today you are told that figure has inflated since those hearings to $784 million. That testimony was wrong.

Hearings on the matter revealed that Contessa Cruise Line is in fact proceeding apace to build cruise ships in domestic yards. Bid packages were sent to U.S. yards on July 1 of this year. The average of 15 bids received was $123 million, with a projected construction time of 20 to 36 months. Both cost and construction time are somewhat in line with European yards.

Attached for the record is a graph revealing the range of bids received from 15 shipyards. Now, these shipyards worked with plans and specifications. They did not work with conversation, which I suspect has been the basis for the $700 to $500 million bids that we have been receiving. They worked with plans and specifications, and they made a diligent effort to bid our ships in accordance with standard shipbuilding practices, recognizing that these would be ships used in passenger trade and in all compliance with U.S. Coast Guard regulations.

[The chart referred to follows:]



These ships are larger and more sophisticated than the Cunard vessels, and we have proven by the receipt of our bids that we can indeed compete in building ships in the United States, especially when by doing so in accordance with the existing law we can gain unlimited access to a long and picturesque coastline enclosing the world's most affluent population. These are very serious advantages.

Contessa has been studying the vacation cruise industry since 1981. We offer our informed view of it to support our contention that there exists real promise for the construction of numerous cruise ships in U.S. yards, provided that the incentives for new builders are not destroyed by this legislation.

Our view of the industry is that it has enormous growth potential, enough to accommodate numerous additional U.S.-flag ships introduced with appropriate market development. The 50-some odd cruise ships that will operate out there this year do not have the capacity to accommodate even 1 percent of the U.S. population at the ratio of one trip per person annually.

The promise that I see can be grasped by recognizing that in 1982 residents of Florida and California has the highest ratio of cruising of all of the States, and not another State was even close to their ratio. The entire string of eastern seaboard States above Florida averaged less than one-fifth of the cruising ratio of Florida's residents. That gives you a picture of the growth potential that is possible with an aggressive marketing program. The reason for the disparity is that Florida and California are heavily marketed by the cruise industry and cruise ships are accessible to residents of those states.

The most populous and scenic expanse of U.S. coastline is wide open for development by U.S.-flag operators, such as Contessa. De-

veloping the Texas, Louisiana, and Oklahoma markets to the ratio of Florida's current level would keep three cruise ships busy year round. Contessa's plans are to do just that.

This exciting business opportunity has been steadily enhanced by a combination of circumstances, the first of which is that, while European shipbuilding costs have been steadily rising, costs in U.S. yards have actually declined.

Two, investment tax credits and accelerated cost recovery are definitely delivering the intended benefit, and that is of generating investment capital.

Three, restoration of tax deductibility for business-related cruises on U.S.-flag ships definitely expands the market.

Four, erosion of jobs it the U.S. maritime industry has inspired maritime labor to come to terms with the economic facts of crewing floating resorts against strong foreign competition.

Fifth, while about two-thirds of the existing fleet of cruise ships is over 15 years old, these ships are gradually being replaced, requiring foreign operators to apply cruise rate structures that recognize new building investments at current construction costs.

These factors come together right now to collectively create the favorable circumstances that permit Contessa and others to enter this growth segment of the U.S. maritime industry.

Unfortunately, at the same time that Contessa and others are proceeding in strict accordance with existing law, Congress is being asked to establish nothing less than a cartel by legislation that would put one operator in business to the exclusion of all others, including those of us who have gone to the expense of establishing that we can build United States and operate our ships profitably. The irony is that we would be cut from the game by those whose strategy is to circumvent the law.

We have been asked repeatedly if our financing is in place. We respond that investment capital is readily available for ventures involving large capital investments through the ITC and ACRS measurs mentioned above. Our investment program is in place in that it is a functioning program and it is being approached in an orderly fashion. I would be glad to discuss the fashion if you would like.

We have been asked in wonderment how we propose to compete with foreign-flag cruise lines. We respond by reluctantly giving away the essential details of proprietary studies of the industry, obtained at considerable expense, some of which are cited herein.

We have been asked if Contessa would proceed with construction plans if S. 1197 becomes law. We have responded that we would doggedly proceed. But I think that I have to look at harsh realities, and I have to admit finally to myself that entry of these two ships as proposed would terminate our program.

It has been shown that if Contessa fails to proceed a golden opportunity has been lost. Therefore, I offer a condition that will cure this fear. If it is the will of Congress to enact this legislation, make it subject to Contessa's failure within 6 months to begin actual construction of its first ship. If we fail, then we have no legitimate leg to stand on in opposition. If we succeed, a new shipbuilding era for U.S. yards will not have been axed.

I would like to make one comment. In my testimony that has been called questionable, which is very generous—it was described

in a little less complimentary terms on other occasions—we have talked about the cost of building ships, and it just seems to be an insurmountable question as to how much it costs to build a ship.

Yesterday I received from National Steel & Shipbuilding Co. a detailed proposal to build a ship, that is a truly luxury cruise ship larger than either of the Cunard ships, with a more modern propulsion system. It is a truly more modern ship.

The firm, which is one of the leading shipbuilding firms in the United States, said, we will build this ship for $140 million, including detailed design, which is about a $6 million addition. In other words, $140 million total. And we will build it in 3 years beginning January—December 20, 1983.

I have other documents that reveal that Marine Power & Equipment of Seattle will build our ship in 2 years. They are a very reputable shipbuilding firm. Their firm bid is $115 million.

Thank you very much.

Senator STEVENS. Thank you.

We will proceed then to Mr. Kurtz.

Mr. KURTZ. Mr. Chairman and members of the committee, my name is James L. Kurtz. I have agreed with the stockholders of American Maritime Holdings, Inc., owner of the SS *Monterey,* an American-built vessel qualifying for coastwise trade, to purchase American Maritime Holdings, Inc., and the SS *Monterey* and to operate her in a coastwise cruise service between the west coast and Hawaii and among the Hawaiian Islands and Alaska.

The *Monterey* will create some 650 jobs directly, including jobs or job equivalents in direct support of its operations, and jobs for seamen and other employees of the operating company. Its refurbishing and continuing maintenance and repair will keep U.S. shipyards open and viable. Its resumption in trade will make a U.S. passenger vessel available to this Nation in time of war.

The *Monterey's* home port will be San Francisco. Ports of call or embarkation will include San Francisco, Los Angeles, Portland, and Seattle, as well as Hawaii and, in the summer, Alaska.

I strongly oppose S. 1197 and have already testified in opposition to H.R. 2883, its counterpart, before the House Merchant Marine Subcommittee.

This committee is well aware of the status of the domestic cruise trade today. Within limitations, the demand has been recognized as strong. That projected demand prompted two U.S.-built vessels, the SS *Independence* and the SS *Constitution,* with over 1,800 berths, to enter the trade. Other operators are pursuing realistic plans for coastwise trade for such U.S.-built vessels as the SS *United States,* with 1,600 berths, and the SS *Santa Rosa,* with an extended capacity of 700 berths. Plans for new construction in the United States of four cruise vessels are in the advanced stages.

We intend to put the *Monterey* in a U.S. shipyard shortly for the work needed to expand her capacity from 400 berths to over 600 berths and to bring her into class.

In other words, for the U.S. coastwise cruise trade you are looking at some 7,000 berths on U.S.-built vessels competing for bookings. It is in this context that the proponents of the bill claim that exceptions to let in two foreign-built ships are necessary because

otherwise there would be no coastwise cruise industry. In fact, the entry of these two vessels may well have just the opposite impact.

A recent study performed under the direction of the U.S. Maritime Administration, prepared by Centaur Associates, Inc., analyzed the west coast market for domestic cruise trade. It is clear from the report, which tracked the potential for three vessels and 2,650 berths in the trade, that although the market is growing, there are definite limits on its ability to absorb cruise ships, which are not only competing among themselves but also with other recreational facilities and forms of travel.

You should know that when the *Monterey* enters the trade with the two vessels already in the trade, there will be 2,400 berths available without the participation of any other vessel.

I feel strongly that this bill, if enacted, will be detrimental to the domestic cruise industry and is unfair and inequitable to those who have invested a great deal of money and time to bring vessels in according to the Jones Act rules, for the following reasons.

One, it sets a new precedent which will be hard to overcome when more foreign bottoms are thought to be qualified.

Two, the 1,800 births on the Cunard vessels represent a significant additional capacity, which will either create an excess capacity when qualified U.S. bottoms are put into trade or discourage the U.S.-built vessels from entering the trade.

Three, shipyard workers will lose their jobs in the short run when U.S. ventures are discouraged and in the long run when replacement vessels are built overseas and brought in under the Cunard bill precedent.

Four, the bill weakens the underpinnings of the protection on which we relied when we invested our capital and, too late, provides precedent for us to take an entirely different approach to serving the market.

It is important for this committee to realize that our program for reinstating the *Monterey* in service is no pipe dream. Over $6.5 million has already been spent by American Maritime Holdings on the *Monterey*. My colleagues and I have expended well over $2 million, and we intend to spend another $16 million to save her for the Jones Act trade and to put her into that trade.

Moreover, significant progress has been made toward consummating our financing. Subsequent to my testimony before the House, we received a cable confirming the progress we have made to date. I would like to commend your attention to a copy of the cable [1] and a copy of my transmittal letter to Chairman Biaggi, both of which I have here and would like to submit for the record.

Senator STEVENS. We will be happy to receive it.

Mr. KURTZ. Although the schedule contemplated by the wire and my letter has been delayed for a few weeks, we are back on track and will be meeting next week with our lender in Switzerland to finalize the documentation and set a closing date.

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[1] The cable was in German and the translation is as follows: "We have presented your project of American Maritime Holdings to our bank. The reaction is not negative. We have been invited to finish the documentation for comment, which we would be able to do in about 14 days. We will keep you informed."

Within 3 weeks from the closing date, the *Monterey* will enter a shipyard for renovation. Based on informed bids negotiated with the yards, we expect the heavier steel work to be performed by Todd Shipyard in San Francisco or Tacoma Boat, and the interior expansion and refurbishing to be carried out in the Northwest Iron and Steel yard in Portland.

I must tell you now what I told the House subcommittee. We have been playing the game according to the rules, because we had to and because we believe that buy American in the U.S. passenger vessel shipping industry is still the key to the long-range health of the industry.

I feel strongly that our perseverance in a cause often espoused and praised by this committee should not be rewarded by the granting of concessions to foreign-built ships which could not only break our back but destroy the equilibrium created by the Jones Act in coastwise trade as well.

That equilibrium protects the jobs of U.S. seamen and U.S. shipyard workers, and supports the viability of our Nation's merchant marine and shipbuilding capabilities, provided the protected coastwise trade itself is viable. Considerable study and experience of the *Independence* and *Constitution* demonstrate that it is.

The petition before you today to let foreign-built vessels share the benefits of the coastwise trade is a clear demonstration that the trade is viable. We also believe the trade is viable, and all we ask is the time to finish our projects.

I urge you not to vote for this bill.

Senator STEVENS. You referred to your group. Who is your group, Mr. Kurtz?

Mr. KURTZ. Myself, Mr. Grinager, and several people in San Francisco.

Senator STEVENS. Is that group incorporated?

Mr. KURTZ. No. What we plan to do is buy the stock of American Maritime Holdings, Inc., and we have agreements with them to that effect.

Senator STEVENS. In your letter you indicate that you feel you will put the *Monterey* into service in March 1984?

Mr. KURTZ. Well, the quotes from the shipyards indicate that it would take 4 months to do the job, but they will put in writing 5 months to do the job.

Senator STEVENS. Thank you very much. We appreciate your testimony.

Senator Inouye.

Senator INOUYE. Mr. Briggs, I gather from your testimony that construction will begin within 6 months?

Mr. BRIGGS. Yes, sir, that is correct.

Senator INOUYE. How many ships do you propose to build?

Mr. BRIGGS. Our intention is to give a two-ship contract to the successful yard, who will begin one ship and begin the second ship 6 months thereafter.

Senator INOUYE. It has been suggested that five companies are prepared to build or refurbish seven ships to put into the cruise business. Why would the introduction of two Curard ships be so detrimental that you will not be able to proceed?

Mr. BRIGGS. Two reasons. No. 1, when you are competing in a market, if I am building a ship for $110, $115 million, and someone else has a ship that costs $50 million, the simple amortization of that investment is a disparity which would make us noncompetitive in the marketplace.

But more important, we continue to be asked about our financing, and our financing is proceeding in accordance with an organized fashion. We have, as Chairman Biaggi of the House Merchant Marine Subcommittee pointed out, we have Merrill Lynch working diligently on the arrangement of our financing.

Merrill Lynch informed me yesterday that the entry of these ships and the economic problems that they impose would create some problems in obtaining this financing, primarily the capital financing, the equity finance. The obvious problem is that while we do not have the Cunard ships in this trade we have a much more exciting program to offer investors. We represent the first legitimate U.S.-flag cruise line in a number of years, of new ships.

In addition to that, we do not have this competitive factor that tends to undermine the salient points of a financial package. Those are the deficiencies that we fear.

Senator INOUYE. Will these ships meet the requirements of the U.S. Navy?

Mr. BRIGGS. I would not know what the requirements of the U.S. Navy are. We have discussed with the Navy the possibility of incorporating certain design features in them, but I am not prepared to work with the Navy for 2 or 3 years to find out what all their requirements might be.

We plan to proceed with construction, and these will be American Bureau of Shipping Standards ships, meet U.S. Coast Guard requirements, and that is the extent of our intention. We are certainly not going to incorporate expensive and detailed features to accommodate the Navy unless the Navy wants to pay for it.

Senator INOUYE. Let me ask Mr. Kurtz a few questions. There is a memo that MaRAd issued on January 22, 1980, which set forth certain shortcomings on the *Monterey*. I gather that you are now proceeding to meet these shortcomings?

Mr. KURTZ. Yes, sir.

Senator INOUYE. When do you believe the negative aspects of that memo will be cleared?

Mr. KURTZ. Well, as far as I know all of the mechanical aspects of it will be completed when the ship is put in the yard.

Senator INOUYE. And that will be when?

Mr. KURTZ. Well, we go next week to Switzerland to work out the final documentation on the financing, and we have proceeded to the point that 2 or 3 weeks thereafter it could go into a shipyard, because we have worked with the shipyards in the past. We know what their bids are, we know what their timing is. We can go to the shipyards quickly.

Senator INOUYE. The repair, reconditioning, and refurbishing has already started?

Mr. KURTZ. All the design has been done. The actual work has not commenced. It will not commence until we actually can arrange for the completed financing.

Senator INOUYE. How much have you invested toward that end?

Mr. KURTZ. Myself and my associates? Well, myself, it is somewhere like $1.5 million, and I think my associates are somewhere around $1 or $1.5 million also.

Senator INOUYE. Thank you very much.

Senator STEVENS. Thank you very much. We appreciate it, both of you.

We are about ready to have a vote on the floor of the Senate. This would be a good time, I think, to take a break. We have been going for almost 3 hours. So we will go vote and we will come back and finish this hearing.

[The following information was subsequently received for the record:]

CONTESSA CRUISE LINE, INC.,
Houston, Tex., October 4, 1983.

Senator TED STEVENS,
Chairman, Subcommittee on Merchant Marine, U.S. Senate, Senate Office Building, Washington, D.C.

DEAR SENATOR STEVENS: During my testimony before your subcommittee on September 29th, I promised to furnish for the record a copy of a proposed agreement for the construction of Contessa's cruise ships offered by National Steel and Shipbuilding Company. The copy is enclosed.

I want also to clarify, actually to correct, my response to Sen Inouye's question regarding Navy defense features incorporated in our ships. I was informed after testifying that such features as required by the Navy would be incorporated at Contessa's expense. I request that my testimony be corrected to reflect this as my response.

Sincerely,

DUDLEY R. BRIGGS, *President.*

Enclosure.

NATIONAL STEEL & SHIPBUILDING CO.,
San Diego, Calif., September 27, 1983.

Re Construction of 543-foot Cruise Ships for U.S. Flag Jones Act Service.

Mr. DUDLEY BRIGGS,
Contessa Cruise Line, Inc.,
Houston, Tex.

Gentlemen, the purpose of this letter is to set forth a letter form of agreement between Contessa Cruise Line, Inc., (Contessa) and National Steel and Shipbuilding Company (NASSCO) concerning the referenced program.

(A) The relevent existing facts and circumstances as of the date of this letter are:

(1) By letter dated July 1, 1983, Contessa has solicited proposals for the construction of two or more 543-foot cruise ships to accommodate 784 passengers each.

(2) Contessa requires the participation of a major shipyard with proven capabilities to perform the construction of two or more vessels.

(3) Contessa has engaged the services of Giannotti and Associates (Giannotti) as its design agent to prepare the necessary contract design data for construction of the vessels. Wartsila Shipyard of Finland (Wartsila), recognized as the world's leading designer and builder of passenger cruise lines, has indicated a willingness to act as a consultant on this project.

(4) NASSCO has reviewed the design date prepared to date by Contessa, and based on its review of such data, NASSCO has prepared an estimate of the costs to perform the work. However, NASSCO is not in a position at this time to provide a firm price for the work.

(B) In these circumstances, the parties hereby mutually agree as follows:

(1) NASSCO agrees to reserve the necessary resources to perform the construction work and to commit the necessary resources to accomplish the following effort:

(a) Contessa will cause Giannotti to promptly finalize the construction design to the satisfaction of Contessa. NASSCO will work closely with Giannotti and Contessa to review and comment on such design respecting producibility and costs of construction, with the objective of such construction design review effort being to produce a design for construction which can be accomplished at a price of $140 million for each of two vessels which include NASSCO's cost for the detail design engineering effort.

(b) Contessa will further develop its financing plan and disclose the details to NASSCO for review and approval, as it relates to interim and final take-out financing. NASSCO will undertake to provide to Contessa a corporate guarantee regarding the construction of those ships.

(c) Concurrent with the activities described in Paragraph (1)(a) above, NASSCO will prepare, as detailed design and financing information becomes available, a detailed estimate of the cost of construction of the vessels by NASSCO.

(2) On the assumption that the design effort referred to in Paragraph (1)(a) above proceeds and concludes timely, NASSCO will use all reasonable and diligent efforts to complete a detailed estimate of the cost of construction of the two vessels and submit such estimates to Contessa on or before December 2, 1983.

(3) Upon completion of the detailed estimate by NASSCO, Contessa and NASSCO will attempt, in good faith, to negotiate a fixed-price contract, including terms and conditions, for construction of the two or more vessels.

(4) Delivery cycles for the ships will be developed as a part of the detailed estimate. The target delivery cycles will be: 1st ship: 36 months after execution of firm contract; 2nd ship: 42 months after execution of firm contract.

The firm delivery schedule will take into account other commited work which NASSCO has in backlog. At the current time, NASSCO has other proposals outstanding, but no firm contracts which could impact delivery of the Contessa ships.

(5) If the parties fail to reach agreement on a contract of any type for NASSCO to perform the construction work by December 16, 1983, then this agreement shall be null and void and the parties shall have no further obligation to each other. It is expressly understood, that in such event each of the parties shall absorb the costs that each has expended to that time with no obligation of either to reimburse the other for any such costs. Contessa shall be free to contract with any other party for the construction work and in so doing may utilize any of the information previously supplied by NASSCO. NASSCO, however, shall have no liabiity for said information or its use.

(6) In the event the parties reach agreement on a contract for NASSCO to perform the construction work, NASSCO's actual costs of engineering and estimating will be included in the estimated costs for such construction work.

DUDLEY BRIGGS,
President, Contessa Cruise Line, Inc.
S. D. TIMMONS,
Senior Vice President, Business Affairs, National Steel & Shipbuilding Co.

[Recess.]

Senator STEVENS. Our next witness is Mr. Hadley, Richard Hadley, President of United States Cruises, Inc., of Seattle, Wash.

STATEMENT OF RICHARD H. HADLEY, PRESIDENT, UNITED STATES CRUISES, INC.

Mr. HADLEY. Mr. Chairman, I appreciate the lateness of the hour and I will endeavor to make this a brief statement.

As you know, I am president of United States Cruises, Inc., owner of the SS *United States,* the ship that was once the flag ship of the U.S. passenger fleet. I testified against this legislation in the House of Representatives. I argued then, as I do now, that it would disadvantage other carriers.

I would hope that some way might be found to preserve the advantage of having new ships in the trade, without injuring other ventures. I would like to review the efforts briefly of USCI to restore the SS *United States* to service and to describe how passage of S. 1197 could affect those efforts.

When the *United States* was constructed in 1952 for $79 million by the Newport News Shipbuilding & Drydock Co., it had original performance capabilities which were so impressive that for years they were classified as secret by the U.S. Navy. The ship was built for U.S. Lines with constructional differential subsidy and it was

purchased by the Maritime Administration in 1973, following the demise of the U.S. passenger fleet. She was maintained as part of the national defense reserve fleet.

In 1978, United States Cruises entered into an agreement with Marad whereby we could purchase the SS *United States* and return her to full operation after making substantial improvments.

Since the 1978 disbursement of $500,000 as a down payment, United States Cruises has spent more than $10 million for vessel acquisition, drydocking, plan development, economic feasibility studies, and other conversion preparations to prepare the ship for cruise service. This is a serious venture with a serious purpose, and United States Cruises has planned and spent accordingly.

As a matter of fact, we probably would be operational already were it not for unexpected diversions precipitated by the Department of Defense. Responding to well known concerns about the lack of American strategic mobility, DOD asked Marad to postpone our transaction pending a determination as to whether the Department would requisition the vessel for conversion to a hospital ship. On January 15, 1981, departing Carter administration defense officials went so far as to enter into a memo of understanding with the Department of Commerce regarding the use of the *United States* with the Rapid Deployment Force.

While the Department of Defense ultimately decided to solicit bids for other ships in 1982, the delay in decision cost USCI greatly. And I add that it was only last August 1982, that we finally got a letter from Caspar Weinberger saying that the Department of Defense no longer had any interest in trying to take this ship away from us for conversion to a hospital mode.

I describe these events, Mr. Chairman, in order to provide some perspective on the scope and intensity of our undertaking and to indicate the extent that United States Cruises has relied on the present maritime policies of the SS *United States.*

I can tell the subcommittee today that our future plans are definite, not speculative. I plan to operate the *United States* in the coastwise trade. I intend it to be home ported in Honolulu. I am hopeful it could be refurbished in the United States, and I have reached the final negotiating point with shipyards in the Northwest. I will operate the ship on both the west and east coasts, with primary service to be to and from points in Hawaii and the west coast, including Alaska.

Senator STEVENS. You have my attention on that.

Mr. HADLEY. Yes, sir.

I share the desire of this bill's proponents to see our Jones Act fleet expand and flourish. Moreover, there ought to be competition, but fair competition, without special privilege. In short, there should be uniform law or policy for all operators.

There is room in the Jones Act passenger trade for a number of operators and for a mix of vessel sizes and types. Thus, the question is not simply should these two ships enter the trade or not, but rather, how can we maximize the number of ships with everone operating on equal footing, with free and open competition?

There has been much talk about the intense disagreement among those interested in this bill, Mr. Chairman, so perhaps the time has come to remember what we do agree on: the need for

more ships, more jobs, and improved management and labor cooperation. If there is a silver lining in this legislation, it is that we now have a chance to fashion a new, creative passenger ship policy, and I would welcome the chance to participate in an effort to do just that.

Mr. Chairman, Senator Inouye, earlier this afternoon there has been talk about absence of any American shipbuilding for 25 years. I would like to just address that issue briefly if I may.

First off, I totally agree with Mr. Briggs' comments about the relative competitiveness of American shipyards. We have received bids now from a yard in Germany, one of the largest yards in northern Europe. We received bids from Tacoma Boat. I was impressed by the closeness of those bids. Tacoma Boat was higher, but not radically higher.

I think Mr. Briggs was right on target when he mentioned that the maritime unions have taken, I think, a much more realistic position with respect to labor rates, contracts, and have demonstrated I think some real statesmanship on the part of the union leaders coming up with some very creative contracts.

My perception is that the economics of building American are decidely improved, not only from the standpoint of cost of construction and cost of operation, but also what the Government has done, centered here with what Congress has done, with respect to providing incentives to be an American-flag opeator.

In the last session of Congress the bill was passed to allow a limited amount of business deductions for conventions held on U.S.-flag ships. This is a very important consideration and has been very favorably regarded by people we have talked to about finance.

The accelerated cost recovery is no 5 years for a ship. That has also helped materially. Congress has provided major incentives now for U.S.-flag—U.S. construciton and U.S.-flag operation, and I think what we are seeing today is just a reflection of the great interest that has developed as a consequence.

In conclusion, I just want to say one thing: We do want to move ahead and we will move ahead, providing that we do not get a body blow from unwise legislation.

I just want to show you one thing. These are some of the plans that we have prepared. I could stretch these across this room over to the other wall—many, many sheets of drawings. Here are two financial studies, and again just part of the studies that we have done.

And all we ask for is consistent, fair maritime policy, and we are prepared to work with it.

Thank you.

Senator STEVENS. Thank you very much. I have reviewed your statement before and I understand your position. I do not have any questions concerning it.

Do you, Senator Inouye?

Senator INOUYE. Mr. Hadley, putting the SS *United States* into operation is not a dream as far as you are concerned. You are working on it?

Mr. HADLEY. It is also a dream, I would have to say. I like the dream very much and I am working on it very hard.

Our intention is to create in the SS *United States* what we rather immodestly believe will be the best cruise ship in the world.

Senator STEVENS. Where is she right now?

Mr. HADLEY. The ship is moored dockside in Norfolk, Va. It is sealed in sort of a state of suspended animation, with dehumidification equipment keeping the interior dry. It is in a remarkably good condition.

Senator INOUYE. Under your present plans, when do you anticipate the first day of operation?

Mr. HADLEY. That depends, Senator, on what happens here with the legislation. It has been my hope that on July 4, 1985, this ship would be in operation again.

But I want to also add this caveat: It depends legislation. If the bill is passed unamended, as it stands, I think it would be a very serious blow to our efforts.

Senator INOUYE. Thank you, sir.

Senator STEVENS. Thank you very much. We appreciate your coutesy, Mr. Hadley.

Now is Mr. Frank Drozak, Seafarers International Union. You have been waiting a long time, Frank. These are getting to be long days up here.

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION

Mr. DROZAK. Well, mine is not over with yet. I have to take a plane back out of here.

But I appreciate the opportunity to testify and the courtesy of this committee.

Senator STEVENS. We have interfered with that trip of yours to Florida twice now, have we not?

Mr. DROZAK. That is right.

We are pleased to have the opportunity, Mr. Chairman, to testify on S. 1197, to allow the Cunard *Princess* and the Cunard *Countess* to be documented under the U.S. flag to operate in domestic passenger trade.

The Seafarers International Union has always been, and continues to be, a strong supporter of all U.S.-built, U.S.-flag, U.S.-owned domestic cabotage laws. The reality of the industry, however, dictates that waivers of this basic principle must be considered occasionally on a case-by-case basis.

Our first concern is whether S. 1197 would harm existing operators. There are only two deep sea passenger vessels active in the U.S. fleet, both operating in the Hawaiian Islands. The newly flagged vessels will operate along the east and west coast and Alaska.

There are some small U.S. passenger vessels operating in the domestic trade. They usually carry less than 100 passengers and operate along the river and bays. Cruise America's owners anticipated side trips on the smaller vessels in cooperation with their operators. This, combined with the nonexistence of a large passenger fleet, will insure that U.S. operators are not harmed.

A second concern was whether S. 1197 would benefit the U.S. merchant marine and the economy. Unemployment in the mari-

time industry is around 47 percent. These two vessels will create about 1,050 seafaring jobs. U.S. shipyards are also suffering from high unemployment. Each of the two vessels will require approximately $2.5 million of shipyard work to meet Coast Guard requirements and $5 million of maintenance on each ship every year, creating a large number of jobs in the shipbuilding sector.

U.S. taxpayers' revenues will increase. About 1.5 million North American passengers take cruises year. In 1983, this created revenues of $4.9 billion. Almost all of that money and its benefits for the economy flows into foreign hands. The addition of these vessels to the U.S. fleet will reverse some of that revenue loss.

Increased employment will raise the tax revenues on both the Federal and local levels. The corporate tax revenues will also increase from the operation of Cruise America, ship supply, and service companies. Port cities and shipyard tax revenues will also increase. In short, the jobs and revenues from the addition of these vessels to the U.S. fleet will benefit the U.S. merchant marine and the U.S. economy.

The third concern was how S. 1197 would affect the future growth of the U.S.-built, U.S.-flag domestic passenger fleet. There is virtually no U.S. domestic passenger fleet at present, nor is there likely to be one, given the high construction costs in U.S. shipyards. It has been 25 years since a passenger vessel was built in a U.S. yard.

Construction estimates cited by the House Merchant Marine Subcommittee were from $65 to $757 million per ship. The Cruise America owners received U.S. yard bids of $250 to $400 million, and a 4- to 6-year delivery schedule, before deciding to purchase the existing vessels.

The Cruise America venture is the only serious proposal ready to go at present. Its owners will take the risks and develop the market. These vessels will encourage future expansion of U.S. domestic passenger fleets and provide additional construction in U.S. shipyards.

A further consideration was its potential benefit to the national defense. The Navy has emphasized the availability of militarily useful vessels during national emergencies. Large passenger vessels are especially important to our military plans. There are only two vessels that can now be guaranteed for Navy use. Passage of S. 1197 would immediately double that number. It is certainly not enough for out total needs, but at least it is a start.

Before closing, Mr. Chairman, noting the unions testifying today, the Marine Engineers Beneficial Association District 1 is opposing this legislation. MEBA District 2 has given me the authority to represent them in full support of this legislation and would like the opportunity to file a statement on behalf of their organization in support of this legislation.

In closing, Mr. Chairman, the economics and defense benefits of S. 1197 cannot be denied. A new segment of the industry will be opened. The results will be to increase employment, stimulate the economy, generate tax revenues, and strengthen our defense. A once-stagnant passenger market will be infused with new money. A rare opportunity is provided to build new America-flag shipping

services. The enactment of S. 1197 will move the maritime industry one step closer to economic health and vitality.

Mr. Chairman, I would certainly urge your support and adoption of this vitally important piece of legislation.

Mr. Chairman, if I may, I have a couple of items I would like to enter into the record if I might.

Senator STEVENS. Surely.

Mr. DROZAK. One pertains to a contract, sir, that was dated June 4, 1976, between Hawaii Venture Cruise Line and National Marine Engineer Beneficial Association District 1, Pacific District, a collective-bargaining agreement signed by Hawaii Cruise Ventures and National Marine Engineer Beneficial Association, Mr. Leon Shapiro, secretary-treasurer, and Mr. Frank Sharman, vice president.

This contract was signed on June 4, and on June 16, a piece of legislation was introduced on the House side, which I would make available, by Congresswoman Lenore Sullivan, asking for the waiver and permission of this Cunard ship, the *Hawaiian Adventurer,* to enter into the domestic trade.

Now, I am a little confused when people will, in the same segment of the industry we live in would at one point in time enter into an agreement covering employment aboard a ship coming into the domestic trade on the one hand, and also have legislation or encourage legislation to be introduced to allow that ship to be waived, and now some few years later are here opposing the waiver of two ships to come into the domestic trade.

Is there something different that has happened between 1976 and now?

Mr. Chairman, I also have a letter dated September 23, 1982, from the Masters, Mates & Pilots, to the vice president of Cunard Limited. And I would just only quote one section of it, and it is signed by Capt. William Rich, with a copy to MM&P President Robert J. Lowen. And it says:

> As I mentioned to you on the phone, our President, Captain Robert J. Lowen, in addition to being President of the International Organization of Masters, Mates, and Pilots, is also an executive council member of the International Longshoremen Association. The Masters, Mates, and Pilots and the marine division of the ILA, as a consequence of this relationship—the International Organization of Masters, Mates, and Pilots, besides offering the finest training for masters, deck officers, radio officers in the U.S., can deliver to Cunard Limited a no-strike pledge from the ILA.

I would like to enter those two into the record.

[The letters referred to follow:]

INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS,
Washington, D.C., September 23, 1982.

Mr. J. M. HANBIDGE,
Vice President, Cunard, Ltd.,
New York, N.Y.

DEAR MR. HANBIDGE: This will refer to our phone conversation of this date in reference to the Cunard *Princess* and the Cunard *Countess* and your project of evaluating the cost benefit of a transfer from the U.K. flag to the U.S. flag.

As I mentioned to you on the phone our president, Captain Robert J. Lowen, in addition to being president of the International Organization of Masters, Mates and Pilots, is also an executive council member of the International Longshoremen's Association. The Masters, Mates & Pilots is the marine division of ILA. As a consequence of this relationship, the International Organization of Masters, Mates & Pilots, besides offering the finest trained masters, deck officers and radio officers in the U.S. can deliver to Cunard, Ltd., a no-strike pledge from the ILA.

In the foregoing paragraph I had mentioned "the best trained"—I refer in this context to our people who for years have attended our Maritime Institute of Technology and Graduate Studies, located in Linthicum Heights, MD, just outside of Baltimore.

I am enclosing for your information two copies of the recently updated brochure distributed to our industry guests on June 29th when the organization and its contracted ship owners celebrated the tenth anniversary of the Maritime Institute and dedicated the expanded facility which is depicted in the attached.

To sum up, before you make a decision and a commitment in reference to the manning of your vessels we believe it would be advantageous to you to meet and discuss this in complete detail with Captain Lowen. As mentioned to you on the phone I am available at any time to come to New York to meet with you or to meet you here in Washington. We understand the pressure of your appointments. As I said to you, our time is your time.

Very truly yours,

Capt. WILLIAM L. RICH, Jr.

OCTOBER 8, 1982.

Capt. WILLIAM L. RICH,
International Organization of Masters, Mates & Pilots, AFL-CIO, Washington, D.C.

DEAR CAPTAIN RICH: This will acknowledge receipt of the letter and two brochures you sent me on September 22nd.

As we discussed during our only conversation which took place Monday, September 27th, the materials should more properly have been sent to the principals of Cruise America who are researching the possibility of introducing a Bahamian ship to the U.S. register.

The brochures indicate what appears to be a fine training facility and I will, as promised, pass them to the principals of Cruise America whom you are trying to reach.

I am sure you are pleased that research is being done to see whether or not U.S. flag shipping can be profitable, and if this research and enabling legislation is successful it would appear that a new industry could develop.

Very truly yours,

J. M. HANBIDGE,
Senior Vice President, Corporate Planning.

[The following information was subsequently received for the record:]

INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS,
New York, N.Y., October 11, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science and Transportation, Washington, D.C.

DEAR MR. CHAIRMAN: I have learned that after I left your Subcommittee's hearings on S. 1197 on September 29, 1983, SIU President Frank Drozak offered for the record a letter from the MM&P's Captain William Rich to Mr. J. M. Hanbidge, Vice President, Cunard, dated September 23, 1982. I have been further advised that Mr. Drozak was offering the letter for the record as a form of "smoking gun" proof in support of his unfounded allegations that the opposition we have registered and continue to register against S. 1197 is based entirely on "sour grapes."

Nothing could be further from the truth!

Had Mr. Drozak or his staff chosen to apprise me of his intent—indeed, I chatted with his own Political Director, Ms. Marianne Rogers, and MEBA-2 representatives at the hearing—I could have explained the purpose of the letter to him and we could have all been spared the embarrassment of this exchange to set the record straight.

In the matter at hand the following are the true and relevant facts:

1. During last summer's International Maritime Organization meetings in London, Mr. Julian Singman, President of MIRAID, was advised by a delegate that Cunard was contemplating reflagging one or more passenger ships to U.S. Registry for operation in the lucrative American foreign cruise trade. As reflagged vessels, they would be operating in the trade without any U.S.-flag competition; a marketing plus!

2. He was advised that two of their passenger vessels had been built to American Bureau of Shipping class and to U.S. Coast Guard flammability and safety stand-

ards in contemplation of eventual reflagging to U.S.-flag even prior to their construction.

3. Mr. Singman called on a Cunard Director at their London headquarters. The Director disclaimed any knowledge of reflagging intent but suggested that Mr. Hanbidge be contacted in New York for further clarification.

4. Captain Rich's September 23, 1982 letter was the result of that conversation. Please note that the entire tone of the letter contemplates nothing other than reflagging for foreign trade cruising. Indeed, the letter was written prior to the introduction of S. 3038 on October 11, 1982, the first bill introduced to waive the *Cunard Princess* into the U.S. domestic trade.

5. Since that time the MM&P has unwaveringly opposed reflagging these vessels with Jones Act privileges and has had no contact with either Cunard or others who represented that they held options on the vessels in question which they intended to exercise subject to Jones Act reflagging.

6. Finally, Mr. Chairman, it is our normal operating procedure to communicate with any individual or company contemplating an American-flag vessel operation as soon as we hear about it. In fact, Captain Rich's letter to Cunard represents only one of the numerous contacts we make each year with prospective operators as a matter of course. This to us is simply good union policy. To do less would be a dereliction of duty to our members.

Mr. Chairman, for the MM&P to act other than it has would be a breach of our fiduciary responsibilities. Our support to reflag any passenger ship into the Jones Act trade is directly counter to the best interests of our membership and their investment of over $6,000,000 (six million dollars) in dues money to acquire and financially warehouse the S.S. *Monterey* in contemplation of further revitalizing the domestic cruise trade.

These monies were invested in our members' belief and trust—and the belief and trust of other American investors in similar ventures—in the sanctity of the Jones Act as affirmed and reaffirmed countless times by the Senate Commerce Committee and its Subcommittee on Merchant Marine and the House Merchant Marine and Fisheries Committee and its Subcommittee on Merchant Marine.

It is also a fact that approval of this special interest bill for a party—or two—who have never previously been involved in American-flag operations has to have a chilling effect on the ability of others to finance all Jones Act ventures, not just passenger vessels. We know for a certainty—the *Monterey* again—that potential investors lose all interest in becoming a part of a venture that is subject to losing a minimum of 40 percent (forty percent) of its capital investment base when a protected position in the domestic trade can be wiped out by the stroke of a pen.

I certainly had not intended to involve your Subcommittee in what is now being characterized as a dispute between unions. As you know, I had agreed with your request that only one union opponent testify against the bill. Although I was present during most of the hearing, I authorized Mr. Jesse Calhoon of NMEBA to speak on MM&P's behalf to avoid the very situation created by Mr. Drozak's innuendoes concerning Captain Rich's letter. Since Mr. Drozak chose not to discuss this matter with me or any of my staff, I have written to advise you and the Committee of the true facts. I would be pleased to so testify should you desire my testimony. If you do not wish me to testify concerning this matter, I would respectfully request that this letter be included in the hearing record so that the misrepresentation of the MM&P's position is corrected.

We appreciate your longstanding commitment to the American merchant marine and your desire to promote American shipbuilding and American-flag operations. We look forward to working with you and your Subcommittee to achieve these objectives.

Sincerely,

ROBERT J. LOWEN, *President.*

Mr. DROZAK. Mr. Chairman, I appreciate the opportunity to come here today. I am confused and I am discouraged at the attitude of the people, both management and labor, relative to this declining maritime industry especially where there could be an opportunity to test the domestic passenger ship industry that we really do not know whether it is there or not, but there is a possibility that it could be. And if it could be, then I believe those who have testified before me would be able to reap the benefits and certainly begin to revitalize this industry.

Note very clearly, Mr. Chairman, too, that there are presently some 60-odd passenger ships with foreign-flag crews and, flying a foreign flag, running out of the United States. Several of those ships have even been given waivers from Customs to enter into certain ports of the United States, which is giving the foreigners the edge relative to starting up a domestic passenger ship service. I hear nothing said about that relative to this in the testimony on the proposal to permit the reflagging of the Cunard ships.

I would again urge you, Mr. Chairman, because of the state of the industry that we are in that S. 1197 be given favorable consideration. Further, I would like to point out that if I believed that this bill or these two ships would affect the maintenance of the domestic cabotage laws, I would oppose it. I have studied this issue and searched my mind to try to understand how this could damage or weaken our cabotage laws and have come to the conclusion that S. 1197 would not affect these basic laws.

For those reasons, I support it and would encourage this committee to support it.

Thank you.

Senator STEVENS. Thank you very much.

I am confused, too, as a matter of fact. We have some other legislation pending that affects a similar area. I am going to review it all. I would just like to see what might be worked out, to see if we cannot try to pull this industry back together. There are too many things out there that we all have to contend with to have this kind of disagreement over a piece of legislation.

But I do not have any questions concerning your testimony.

Senator Inouye.

Senator INOUYE. Thank you.

It is always good to have you, Mr. Drozak. You were here to listen to thg testimony of Mr. Kurtz, Mr. Briggs, and Mr. Hadley. All three have indicated that they have ships at different stages of repair, reconditioning, or refurbusihing, and ready for operation in U.S. coastal waters.

Does that in any way change your thoughts about this measure?

Mr. DROZAK. No, sir, it does not, Senator, because I have, too, had the opportunity to discuss with Mr. Hadlly of United States Cruise, some several years ago, his planning and his ideas and views, and I certainly admire him for it. It has never become reality. I hope his dream does come true one of these days. I certainly think it would be the proper thing.

I also have seen the *Monterey,* which is laying in San Francisco, and she is not being refurbished as of yet. In fact, she is laying alongside the dock, as of yesterday listing a little bit. I do not think that ship would be put into service for some time.

And I certainly believe—of course, at the time that those ships were released we had some people to bid on those ship. At that time it was estimated that it would take some $30 million to refurbish those ships. However, even if these two Cunard ships did come in, I believe, Senator, that there is enough business in the domestic trade to take care of these ships.

I too listened to Mr. Hadley when he said that his ship would be running from Hawaii to the west coast and coastwise, and certainly

the Cunard ships would not be in that run to the Hawaiian Islands. They would be running up and down the coast.

So I view that there would be an opportunity if the market is there, and the numbers that we have seen, Senator, certainly indicate that there is a sufficient volume of passengers for a greater number of ships than S. 1197 addresses. I believe it would encourage them. It would encourage investors to invest and make some of those programs come true, as we also vitally hope.

Senator INOUYE. Then you do not think there is any validate to their fear that if this bill passes they would terminate their activities?

Mr. DROZAK. No, sir, no more than what they have—they have been terminating their activities for several years. They have been working hard, and I again express my opinion and views to them that I admire them for what they are trying to do. But I do not see it harming them one bit. I think it will encourage them.

Senator INOUYE. What about Mr. Briggs' suggestion that this measure be amended to state that S. 1197 will become law if *Contessa* is not able to begin construction within 6 months?

Mr. DROZAK. Well, Senator Inouye, you are just giving as they say, a sick patient another transfusion. They are just asking for another delay and another delay. In the meantime, you are getting more passengers riding on the foreign flag ships. We are letting this trade be more vulnerable to them.

If *Contessa* is sincere—and I have not seen here they have been sincere, although I have not had the opportunity to personally discuss it with the company's management. Nevertheless I certainly talked to the financial people familiar with the industry, and if he is sincere, it would not matter whether it was done now or later, he would still go ahead with this project.

Senator INOUYE. I thank you very much.

Mr. DROZAK. Thank you, sir.

Seantor STEVENS. Thank your very much.

[The statement follows:]

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA, AFL–CIO

Mr. Chairman and members of the Subcommittee, my name is Frank Drozak. I am President of the Seafarers International Union of North America, representing unlicensed seagoing personnel employed on U.S.-flag vessels engaged in this Nation's foreign and domestic commerce. We are pleased to have this opportunity to testify on S. 1197, which would allow the *Cunard Princess* and *Cunard Countess* to be documented under the U.S.-flag for operation in the domestic passenger trade.

The domestic trade is normally reserved for U.S.-built vessels, and the Seafarers International Union has always been and continues to be a strong supporter of all U.S.-built, U.S.-flagged, U.S.-crewed, domestic cabotage laws. The reality of the industry, however, dictates that waivers of this basic principle must be considered occasionally on a case-by-case basis.

In determining policy on ay waiver proposals, three basic questions must be asked. One, will the waiver harm existing operators? Two, will it offer benefits to the U.S. Merchant Marine and to the economy? Three, will it discourage or encourage growth of a U.S.-built, U.S.-flag domestic fleet?

When these questions are applied to proposed waivers of the Jones Act cargo-carrying trade, the answers to each are almost always no. The reason is that the Jones Act cargo trade is fully supported by existing U.S. operators with U.S.-built vessels providing excellent service. The addition of foreign-built vessels would only undermine existing service and discourage future expanison.

The domestic passenger trade, however, is an entirely different situation, controlled by a separate law. The U.S. passenger trade has been almost dead for many years. In 1959, there were 44 active U.S. passenger vessels. It has been 30 years since U.S. vessels provided an active East Coast passenger service. There are now only two luxury passenger vessels operating under the U.S.-flag, the SS *Independence* and the SS *Constitution*. So, when S. 1197 was introduced, it was necessary to carefully examine the above three questions to reach a wise decision on whether to allow these vessels to be U.S.-flagged for domestic service. Each question must be answered individually and then factored into an overall policy supporting a strong and viable domestic fleet.

First, will this proposed waiver harm existing operators? As mentioned above, there are only two deep-sea passenger vessels active in the U.S. fleet. These vessels both operate in the Hawaiian Islands. The newly-flagged vessels will operate along the East and West coasts and Alaska.

Although there are some U.S. passenger vessels operating in the domestic trade, they attract a completely different market. They are small vessels, usually accommodating less than 100 passengerrs. Most operate along the rivers and bays. Many provide no overnight service, but rather day trips along very limited routes. Instead of hurting these smaller ventures, in fact, these ships are geared to enhance them. The owners of Cruise America, who will operate these vessels, anticipate developing side trips on the smaller U.S. vessels in cooperation with those operators. This will increase service for those vessels. This, combined with the non-existence of a large passenger fleet, will ensure U.S. operators are not harmed.

Second, will the passage of S. 1197 benefit the U.S. Merchant Marine and the economy? Unemployment in the maritime industry is about 47 percent. These two vessels will create employment for about 1,050 seamen. U.S. shipyards are suffering tremendous losses, resulting in closures and unemployment. Each of the two vessels will require approximately $2–5 million of shipyard work to meet Coast Guard requirements. Another $5 million of maintenance will be done on each vessel in each year of operation. These expenditures will increase shipyard revenues and raise employment in this vital economic sector.

Service and supply needs of the vessels will increase shoreside opportunities. In a year's sailing, the two vessels may stop at as many as 19 different ports. Shoreside service, fuel and stores requirements will benefit employment in each of these ports. Also, industry statistics estimate that each cruiseship passenger spends an average of $250/day while in port. These expenditures will generate large benefits for the hotel, restaurant, entertainment and tourist industries in each port.

U.S. tax revenues will also increase. At the present time, about 1.5 million North American passengers take cruises each year. The industry estimates that 1983 revenues will reach $4.9 billion. Almost all of that money, and its positive effect on the economy, flows into foreign hands. The addition of these vessels to the U.S. fleet will reverse some of that revenue loss.

Increased employment will raise the tax base on both the federal and local levels. The corporate tax base also will be increased by Cruise America, ship supply and service companies. Port cities and shipyard revenues will also increase, further boosting tax revenues. In short, the jobs, supplies and revenues generated by the addition of these vessels to the U.S. fleet can only help the U.S. merchant marine and the U.S. economy.

Third, will this waiver discourage or encourage future growth of a U.S.-built, U.S.-flag domestic passenger fleet? As already shown, there is virtually no U.S. domestic passenger fleet at present. Nor is there likely to be one, given the high costs of construction in U.S. shipyards. It has been 25 years since a passenger vessel was built in a U.S. yard. Recent construction estimates, cited by the House Merchant Marine Subcommittee, show costs of $65 million to $757 million per ship. The owners of Cruise America received U.S. shipyard bids of $250–$400 million, and a four- to six-year delivery schedule, before deciding to purchase the existing ships.

The Cruise America venture is the only serious proposal ready to go on stream right now. Its owners will take the risks and develop the market. Other American operators can learn from this venture and take advantage of the developing market. U.S. documentation of these vessels clearly will encourage future expansion of the U.S. domestic passenger fleet, providing additional construction of new vessels in U.S. shipyards.

There was a further consideration in determining the merits of this legislation: the potential benefits to the national defense. The Department of the Navy has placed increasing emphasis on the availability of militarily useful vessels during national emergencies. Large passenger vessels are especially important to our naval contingency plans. There are only two vessels whose availability for Navy use can

now be guaranteed. Passage of S. 1197 would immediately double that number. It is certainly not enough for our total needs, but at least it is a start.

The recent Falkland Islands crisis proved the need for passenger vessels. In that very limited engagement, the British used four passenger vessels as troop and supply transports. The present United States fleet would not have been able to supply vessels for even a limited crisis like the Falklands. In contrast, the Soviet Union has 67 passenger vessels to use as supply and troop transports, if needed. Nor can NATO vessels be counted on. Any crisis in a non-NATO area, such as Latin America, would preclude the use of NATO vessels. Even if they were needed for a NATO emergency, the United States could use NATO vessels only if the flag-nation did not require them and agreed to their use.

The specific utility of these vessels for defense cannot be denied. The *Countess* was converted in seven days and served well during the Falkland crisis. The high speed, maneuverability, density and shallow draft of these vessels make them especially suitable for sealift support. Each vessel could accommodate 3,000 troops and the American crews could be used as reserves if necessary.

There were initial concerns that the Department of Defense did not think these vessels were militarily useful. This misconception arose when DOD denied an administrative waiver request to grant the vessels coastwise privileges. An administrative waiver of this type is granted only under extraordinary circumstances, when there is an immediate temporary need for the vessels. Naturally, during peacetime, there is no reason to grant administrative requests; the legislative route is more appropriate. Even though the request had to be denied, Navy officials have indicated that a commercial U.S. passenger fleet would enhance our national security. The addition of these vessels, therefore, would provide a readily available asset to our national defense sealift program.

In summary, the decision to support allowing U.S. documentation and coastwise privileges for the *Cunard Countess* and *Cunard Princess* was carefully considered. Each of the factors was viewed in terms of its effect on the overall policy of a strong U.S.-built, U.S.-flagged, U.S.-crewed Jones Act cargo industry and domestic passenger fleet. Admittance of these vessels will not harm existing operators. The Jones Act remains protected. A waiver on a case-by-case basis provides a certain quality control that will guarantee continued protection and expansion of the fleet.

The economic and defense benefits cannot be denied. A new segment of the industry will be opened. The result will be to increase employment, stimulate the economy, generate tax revenues, and strengthen our defense. A once stagnant passenger market will be infused with new money and new blood. A rare opportunity is provided to build new American-flag shipping services. Suport of this opportunity through enactment of S. 1197 will move the maritime industry one step closer to economic health and vitality.

Our last witness will be Mr. Tom Walsh, vice president of Chesapeake Shipbuilding. Yes, sir, Mr. Walsh.

STATEMENT OF TOM WALSH, VICE PRESIDENT, CHESAPEAKE SHIPBUILDING, INC., AND PRESIDENT, AMERICAN CRUISE LINES, INC., ON BEHALF OF THE AMERICAN WATERWAYS SHIPYARD CONFERENCE

Mr. WALSH. Good afternoon, Senator.

I would like to apologize first of all that Mr. Robertson was unable to make it here this evening.

Mr. Chairman, Senator, my name is Thomas Walsh and I am vice president of Chesapeake Shipbuilding, Salisbury, Md., Williamson-Manchester Shipyard of Newport, R.I., and American Cruise Lines of Haddam, Conn., in addition to several other companies in the maritime transportation and technical field.

Today I am also representing the American Waterways Shipyard Conference, in addition to the companies previously listed. The American Waterways Shipyard Conference, which is part of the American Waterways Operators, Inc., is a national trade association for the smaller or second tier commercial shipyards.

This segment of the shipbuilding and repair industry is composed of just over 300 shipyards located throughout the Nation. These shipyards serve the barge and towing industry, the offshore service and fishing industries, and they also produce the cruise ships and ferry vessels for our Nation's coastal and inland region.

If the proposed legislation is enacted allowing foreign-built hulls to operate in domestic service, it would create a national tragedy in an industry which is just beginning to blossom as a strong producer of new American ships and as an employer of thousands of Americans. This segment of the shipbuilding industry is experiencing an unemployment rate of about 75 percent, with one of the only bright spots being the construction of passenger cruise vessels.

American Cruise Lines is a U.S. corporation which presently operates three U.S.-flag passenger cruise ships in domestic coastwise service and has done so for many years. This past June we launched a fourth vessel at our Salisbury shipyard. This vessel is the largest coastal cruise ship in the United States built in the United States since before World War II.

In addition, we are planning to build two 600-passenger cruise ships to operate from the United States. We strongly believe these ships should be American-built and fly the American flag.

I am informed of the growth plans of other U.S. cruise operators for their American-built, American-flag fleets. Recently cruise ships of this size have been under construction, not only at our yard in Maryland, but also at Blount Marine in Rhode Island, Jeffboat, Inc., in Indiana, Nichols Brothers in Washington, and Offshore Shipbuilding in Florida.

The public demand for all types of cruises from day excursions to those lasting several weeks, and for larger cruise ships, has been growing at a phenomenal rate. The industry not only plans to expand the number of vessels, but to also dramatically increase the size of these vessels. If this industry is not stifled by admitting foreign-built vessels to the coastwise trade, many more jobs would be created in the United States, not only in the shipyards and their allied industries, but also aboard the vessels themselves.

We recently selected five American shipyards to explore and begin negotiations on construction of two large passenger cruise ships for domestic service which are similar in size to the Cunard vessels. These five American shipyards—American Shipbuilding, Bethlehem Steel, Bath Iron Works, Ingalls Shipbuilding, and Tacoma Shipbuilding—all expressed great enthusiasm and willingness to build these ships.

We received no indication from any shipyard that they might be either unwilling or incapable of constructing these vessels. On the contrary, they are anxious and aggressive in their pursuit of this type of shipbuilding contract, further demonstrating the U.S. capacity for building this type of vessel, which would present a great opportunity to employ nationwide many thousands of American workers.

In the current economic climate and the resulting unemployment, can we afford to throw away an opportunity to put thousands of Americans back to work?

In addition to market demand and a shipbuilding capacity, the other factor which makes this industry possible are the cabotage

laws which prohibit foreign-built vessels from transporting passengers between ports or places in the United States: the Vessel Documentation Act, sections 111 and 112, which requires that the vessel must be built in the United States to be issued a coastwise license or a Great Lakes license; also, section 27 of the Merchant Marine Act of 1920.

The basic principle underlying cabotage laws is to preserve domestic trade in the shipbuilding industry for the economic good of the country and for use as an adjunct to national security forces. These laws are absolutely vital to the American shipbuilding industry. We can point with pride at this segment of the shipbuilding industry, which is highly competitive and has produced cost effective ships with the latest in technology and safety features. The Jones Act and related laws have insulated us from the predatory pricing of foreign government-subsidized shipyards, and they are preserving the shipbuilding base and skills which we have found so essential in times of national emergency.

This segment of the American shipbuilding industry is just beginning to become more competitive with foreign yards. The impact of this legislation would be devastating if these exemptions are granted. In all fairness, other operators would have to be granted similar exemptions, and we for one would be forced to immediately request similar exemptions in order to remain competitive with these reflagged foreign hulls. Ultimately, we would be forced to build our ships in foreign yards instead of American yards, against our wishes and against our national pride.

In their zeal to reflag the Cunard vessels, the promoters would lead Congress to believe that there is no competition between the large and small passenger vessels. I would like to refute this.

First, our market for passengers is identical. These are people who want to travel on a vessel to places of interest. The Cunard promoters plan to visit Philadelphia, Baltimore, Alexandria, Charleston, Jamestown, Yorktown, New Orleans. These ports can be visited without ever proceeding to sea, and they are also the very same ports that our vessels visit. There is no question that they will lure potential passengers from our vessels.

In addition, the fares might be significantly lower because these ships are being purchased at distressed market prices. Taking it one step further, these unrealistically low fares will absolutely discourage the construction of passenger ships in the United States. Those of us who have invested in the industry under the current rules face the prospect of grossly unfair competition.

This legislation body has before it an opportunity to underscore American resolve to improve and utilize its shipbuilding capabilities and to once again become a leader in this field. Most cruise passengers in the world are Americans and most leave from American ports, and in all it is fair that American workers should build and crew these ships.

After all, it is American jobs that we are talking about. Let there be no mistake or confusion, this is an anti-job bill.

The American Waterways Shipyard Conference and the American Waterways Operators strongly support the Jones Act and related laws prohibiting foreign-built vessels from the U.S. coastwise trades and therefore oppose Senate 1197, which would permit two

foreign-built vessels, the Cunard *Princess* and the Cunard *Countess,* to operate in our coastwise passenger vessel trade.

On behalf of the American Waterways Shipyard Conference, I appreciate the opportunity to address the Subcommittee on Merchant Marine. Thank you for your concern, and I would be pleased to answer any questions.

Senator STEVENS. Thank you very much. I appreciate you waiting until last to present that testimony. It is complete. As a matter of fact, I looked over the brochure that you have along with your statement and it is quite complete. So we appreciate your courtesy in presenting it.

I have no questions.

Senator Inouye.

Senator INOUYE. Thank you, Mr. Chairman.

I am impressed by the submission of these documents. You have four ships now in operation?

Mr. WALSH. Three ships, Senator. The fourth one is scheduled to go into service April 14, 1984. It is being outfitted at the present time in Salisbury, Md.

Senator INOUYE. How would you describe your business? Good?

Mr. WALSH. Yes, sir.

Senator INOUYE. And your contention is that if this measure passes and the two Cunard ships get into operation, you would go out of business?

Mr. WALSH. Our contention is, Senator, that it would be drastically unfair for us to continue to compete with the Cunard vessels, and that we would have to seriously look at continuing our plans and negotiations to build larger U.S.-flag vessels.

Senator INOUYE. And your four ships were built in American yards?

Mr. WALSH. Yes, they were.

Senator INOUYE. Manned by American crews?

Mr. WALSH. Yes, they are.

Senator INOUYE. I thank you, sir.

Senator STEVENS. Thank you very much.

That completes the testimony. We had indication of one further statement to come forward. We will keep the record open. How long do you want, Frank, for that other statement?

Mr. DROZAK. I have them.

Senator STEVENS. We will take those statements and they will be printed in the record.

We have no further witnesses scheduled. That closes this hearing.

Thank you.

[Whereupon, at 6:35 p.m., the subcommittee was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. Chairman and members of the Subcommittee, I am Lee Rice, President of the Shipbuilders Council of America, the national trade association representing the principal domestic shipbuilders, ship repairers, and providers of equipment and sources to the industry.

We oppose S–1197, which would reflag the foreign-built vessels *Cunard Princess* and *Cunard Countess* and permit those vessels to engage in United States coastwise passenger trades.

We oppose this bill as part of the continuing erosion of the Jones Act. The Shipbuilders Council has steadfastly supported the Jones Act and its requirements for American construction, ownership, and crewing of all ships operating in our coastwise trades. For roughly 200 years, this law has helped preserve part of the fleet and shipyard capacity we need in the interest of our national security. Now there are multifarious attacks on it, seeking exceptions for particular trades, states, or ships. The Jones Act is, now, the only market for U.S.-built commercial ships. It should not be destroyed piecemeal.

This subcommittee has before and shall again hear of the need to sustain an adequate mobilization base of shipyards and skilled shipbuilding workers in support of our nation's security. They soon-to-be published Navy/Maritime Administration "Shipyard Mobilization Base Analysis" concludes that a significant commercial workload must be maintained in the shipyard if wartime needs are to be met.

The only market for commercial shipbuilding left to U.S. shipyards is that created by the Jones Act. Each time foreign-built ships, such as the Cunard ships at issue here, are allowed to enter the Jones Act trades a part of that vestigial market is lost, and along with it, part of our mobilization base is also lost. It is not in our Nation's interest to permit this decimation of the mobilization base to continue.

Our opposition to this bill is reinforced by the adverse impact it will have on currently developing projects to build or refit passenger ships here in the next few years. At present, there are at least three groups seriously considering bringing U.S.-built vessels into the coastwise passenger trade. The Hadley group may be able to reactivate the SS *United States*. Contessa Lines's Mr. Dudley Briggs has asked U.S. shipyards for estimated prices of two types of passenger vessels and has, I am advised, received cost estimates from at least a dozen shipyards. Lastly, the SS *Monterrey* and SS *Mariposa* may yet be brought into the trade. The market is not large enough to support more than a few ships. Thus, if the two Cunard ships enter these trades, investor would not likely support the proposed new ventures.

Because the market is so limited, we urge the Subcommittee to adopt an amendment to S–1197 if it should decide to pass this bill. In its consideration of HR–2883, the companion bill, the House Committee on Merchant Marine and Fisheries adopted an amendment which would preclude the Cunard ships from participating in the Gulf Coast Jones Act trades if a U.S.-built vessel entered that trade. We propose a similar amendment here. We suggest that S–1197 be amended, but in a more general way to ensure that any U.S.-built ship be permitted to trade in any Jones Act passenger trade unimpeded by competition from the Cunard ships.

Any of the three ventures cited above could mean significant work for U.S. shipyards. What work would the Cunard vessels provide? The answer is virtually none. Both Cunard ships have been refitted in Maltese shipyards for the purpose of restoring them to their civilian configuration after having been modified to serve in the Falklands conflict. This work was probably done with reflagging in mind. Little or no additional work need be done before both ships could enter our coastwise trades.

Mr. Chairman, this bill is special-interest legislation which places financial benefit to the few above the interests of the many. Possibly, a few jobs may be gained in the short term, but they are few indeed compared to those which certainly will be lost if the U.S.-built ship ventures fail as a result.

Some say that foreign-built passenger vessels should be brought into the Jones Act trades because no ships will be built here to serve those trades. They seek to make their prophecy self-fulfilling by passage of this bill. We submit that this Committee could better serve our Nation by assisting those who intend to construct vessels in the U.S. for these trades. We strongly urge the Subcommittee to vote against passage of this bill.

STATEMENT OF ANTHONY J. TOZZOLI

Mr. Chairman, my name is Anthony J. Tozzoli, I am the Director of the Port Department, The Port Authority of New York and New Jersey, and I am here to testify in favor of S. 1197.

The Port of New York/New Jersey has long been a focal point for travelers by ship to and from Europe as well as an embarkation point for cruise passengers to destinations as close as Bermuda and as remote as the South Pacific.

In the post World War II period and as late as the early 1960's, over 900,000 passengers annually sailed to and from the port of New York on the ships of United States and foreign flag steamship lines.

Today, the "ocean going" passenger ship fleet under United States flag is practically non-existant, except for a few ships; and the number of passengers, sailing through New York, all on foreign flag ships, was done to 336,000 in 1982.

The Port of New York and New Jersey and the City of New York have attempted to bring about a rebirth of cruising from the port, with an investment of over 40 million dollars in passenger ship terminal facilities; however, these facilities are currently underutilized.

But perhaps more significant than the operation of these two ships in the coastwise trade—certainly from the port Authority view—is that the Cruise America Line operation could demonstrate the existence of a large but untested market. It is our belief that once the market is proven, there will be other operators willing to build vessels in the United States and call in New York Harbor and other ports.

Our confidence in the existence of a market is based on a survey we conducted in 1977. That study revealed that almost two thirds of the potential cruise ship travelers who were interviewed indicated they were interested in taking a coastwise cruise between New York and South Florida. Similar interest was shown in cruises north toward Canada.

Foreign flag cruise line officials, whose cruise ships operate from United States ports indicate that passenger occupancy rates over 90 percent of capacity are required for the cruise lines to produce a profit. When these high operating costs are added to the high construction costs of United States built cruise ships, United States coastwise cruising does not offer a competitively priced product capable of meeting the desires of travelers similar to those who were surveyed by the Port Authority.

Lacking this competitive pricing position, investors have avoided the U.S. cruise industry with the exception of American Hawaii Cruises, whose vessels, the *"Constitution"* and *"Independence"* were brought back to United States flag under legislative waiver, Delta Queen Steamboat Company, operating specialty riverboat cruises on the Mississippi, and Delta Steamship Line which operates three passenger/cargo vessels with one sailing every three weeks from the West Coast of the United States to South America on ships whose primary purpose is to carry cargo. A number of small non-deep water U.S. flag vessels ply the intercoastal waterways and account for about 2 percent of the total cruise passengers sailing from United States ports.

The proposed operation of the *Countess* and *Princess* by Cruise America Line, under United States flag operation, would provide New York, as well as other ports, with a new program of coastal cruises unavailable now or in the foreseeable future under the current limitations of the Jones Act.

In addition to new cruise programs, this service would provide increased jobs for U.S. maritime, longshoremen and shipyard unions as well as additional jobs and economic benefits to shoreside support personnel and broad segments of the U.S. travel industry.

Coastwise cruises aboard the *Princess* and *Countess* would offer a competitive product under U.S. flag operation, for those 95 percent of cruise travelers, who are now sailing from U.S. ports to destinations outside the United States on ships of foreign registry. For those who have never cruised, there now would be the opportunity to sail between some of America's great ports and coastal areas.

Finally, I would like to reiterate an important point. Based on our experience in this country, that is to say, in the absence coastwise cruise service, we will not see

such an industry developed until someone, like Cruise America Line, takes the initiative and proves the market. For that reason along, it is important that Congress permit these entrepeneuers to forge ahead.

STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

Mr. Chairman and members of the subcommittee, my name is Peter J. Luciano. I am Executive Director of the Transportation Institute, a nonprofit research and educational organization dedicated to the preservation and promotion of a strong U.S.-flag maritime capability. Our 174 member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades including the inland waterways and Great Lakes.

The Transportation Institute would like to thank the Subcommittee for this opportunity to express our views on S. 1197, legislation to permit the passenger vessels, Cunard *Princess* and Cunard *Countess*, to be documented under the laws of the United States and to operate in the coastwise passenger trade of the United States. As this Subcommittee knows, the American-flag passenger fleet has virtually disappeared from the sea. In the past couple of years, Congress has taken a number of steps to restore this important sector of the fleet. The reflagging of these additional vessels, two of the newest and most modern ships in the world, would mark important further progress in the revitalization of the U.S. merchant passenger vessel fleet.

It is a well-known fact that America is the center of the world's lucrative passenger ship cruise industry. At the height of the cruise season, nearly a hundred passenger vessels carry U.S. citizens from the United States to ports in the Caribbean and other tropical areas. Ironically, over 95 percent of these vessels are foreign-flagged and employ foreign nationals.

In recent years, a concerted effort has been launched to revitalize a nearly extinct yet at one time dominant U.S.-flag passenger ship fleet. With the assistance of this Subcommittee, the *Independence* and the *Constitution* are presently sailing under the American-flag and plying the waters around the Hawaiian Islands. Last year Congress passed legislation to permit a tax deduction for convention expenses held on U.S.-flag cruise ships affording the U.S.-flag ship operator an opportunity to compete for the considerable American convention business. Without question, these past initiatives have had a marked impact on the U.S.-flag passenger ship industry. Nonetheless, it is critically important that we continue these efforts to rebuild the fleet.

By law, foreign-flag vessels are prohibited from engaging in the coastwise trade of the United States. Presently, there are no major ocean-going U.S.-flag cruise vessels calling predominantly at coastal ports in the continental United States. Enactment of S. 1197 would fill this void. The Transportation Institute believes that if offered a choice, Americans would prefer to book a cruise on a U.S.-flag vessel crewed by fellow U.S. citizens.

It is not often that an opportunity arises to rejuvenate a critical national resource, such as the American-flag passenger ship industry, all at no cost to the federal government. During these troubled economic times, the U.S. cannot afford to stand idly by and watch millions of American tourist dollars flow directly into the hands of foreign cruise operators and workers who pay no United States income taxes on their profits and wages. A return of the U.S.-flag passenger ship fleet would not only strengthen the U.S. merchant marine, but would benefit the American economy and improve the U.S. balance of payments by keeping tourist dollars in the United States.

Passage of S. 1197 would provide hundreds of jobs in the U.S. seafaring and related maritime industries. This increased employment would carry over the the U.S. shipbuilding industry as well. In up-front costs alone, each vessel will have to undergo several million dollars worth of repair work in order to meet U.S. Coast Guard standards. It is our understanding that this initial work, as well as all future maintenance and repair work, will be completed in American shipyards. While the Transportation Institute would favor the construction of passenger vessels in U.S. shipyards, reality dictates otherwise. With the exception of the *Mississippi Queen* which was launched in 1976, no large passenger ships have been constructed in this country in the past 25 years. Furthermore, given the high cost differential between a U.S.-built and a foreign-build passenger vessel, it is highly unlikely that any large passenger vessel will be built in the United States at any time in the near future.

In addition to the obvious benefits to the U.S. merchant marine, S. 1197 would greatly enhance the Nation's defense posture. The United States commercial mer-

chant fleet has long been recognized as a vital national asset. It is well known that the U.S. merchant marine serves as an auxiliary to the U.S. Naval forces in time of war or national emergency. In recent years, the U.S. military has placed increased emphasis on the role of sealift in strategic mobility. Nonetheless, the number of ships capable of performing this role is declining. One need only look to the recent Falkland Islands crisis to appreciate the value of a strong privately owned U.S.-flag passenger fleet. Some of Britain's most valuable assets were the British-flag passenger ships employed in that encounter. These vessels, one of which in fact was the Cunard *Countess,* provided Great Britain with the vital troop carrying and medical capabilities necessary to successfully accomplish their military objectives. If the United States were to be involved in even a minor conflict today, it wold not have the passenger ships necessary to fulfill its military needs. In light of the present state of world affairs, and the presence of three active wars, America cannot afford to let this important segment of our merchant fleet disappear.

In addition, we would like to comment on the possible impact S. 1197 would have on the existing U.S.-flag cruise ship industry. During the recent hearing on S. 1197, concern was raised over the impact this legislation would have on existing U.S.-flag vessel passenger services. We would like to point out that, based on the itinerary outlined by Cruise America Line, Inc., neither one of these vessels will compete with any existing American passenger services. If anything, passage of S. 1197 could very well have a positive impact on the American cruise industry. This will be realized from the fact that Cruise American Line, which has already expended considerable sums of money for planning, will be entering a previously untested market, and if successful, will serve as an encouragement and incentive for other potential U.S. operators. This, in turn, by demonstrating the viability of this new market, could create further business for American shipyards in the future.

Before concluding, the Transportation Institute, however, would like to recommend one change to S. 1197. The passenger ships *Mississippi Queen* and *Delta Queen,* while not strictly engaged in the U.S. coastwise trades, call at various river ports in the Gulf Coast area as well as inland ports along the Mississippi and Ohio Rivers. Therefore, we would like to suggest that either an amendment or report language be added to the bill which would prohibit the Cunard vessels from competing directly with the above mentioned vessels. This type of amendment would alleviate any concern that the redocumentation of the Cunard vessels will siphon off river passenger traffic.

In conclusion, the Transportation Institute expresses its appreciation for your recent efforts to reinvigorate the American merchant marine, and in particular, the American-flag passenger fleet. We believe that every effort should be made to assist every American operator that shows an interest in devoting capital to this type of venture. It consistently has been our position that a successful U.S.-flag cruise industry could be and should be redeveloped in this country. S. 1197 will go a long way to insure the realization of this goal.

Thank you.

CHARTER MARINE FUELS, INC.,
Jacksonville, Fla., September 23, 1983.

Hon. TED STEVENS,
Senate Russell Office Building,
Washington, D.C.

DEAR SENATOR STEVENS: Charter Marine Fuels, Inc., a marketing and supplying company for marine fuel oils, a division of The Charter Company, which is primarily engaged in the refining and marketing of crude oil, gasoline, petrochemicals and other petroleum products for domestic and foreign markets; would like to inform you of its support of S. 1197, legislation to enable the passenger ship, CUNARD COUNTESS and CUNARD PRINCESS to enter our domestic coastwise trades.

The Charter Company would expect to benefit by S. 1197, by bringing about an increase in our bunkering activities at our terminals located in Boston, Providence, Tiverton, Portsmouth, NH, Portland, Maine; Houston and Galveston. The resultant increase in bunkering would provide an opportunity to increase employment, tankage, tug and barge chartering and create additional hiring by Charter of tank calibrators and marine oil surveyors at many of our terminals.

We urge your support of S. 1197 and look forward to increased sales and employment as a result of your committee's actions.

Sincerely,

BUDDY NEUBAUER, *President.*

REMBOLD CORP.,
Seattle, Wash., September 23, 1983.

Hon. TED STEVENS,
Member, Commerce, Science, and Transportation Committee, Washington, D.C.

DEAR SENATOR STEVENS: The Rembold Corporation would like to express for the record its support of S. 1197. Our company has leased Pier 66 from the Port of Seattle and has committed $40 million to redevelop same into a modern 240,000 square foot cruise ship passenger terminal. We have completed the first phase of this development, which included the construction of a five-story 650 stall parking garage and will shortly begin conversion of the on-site existing wood-framed industrial pier-shed into 120,000 square feet of ship servicing, passenger waiting areas, and retail and restaurant uses.

Enactment of S. 1197 will facilitate the development of a modern U.S. flag cruise fleet capable of utilizing Pier 66. Vancouver, B.C. has benefited and Seattle has missed opportunities as a cruise port for the Alaska market because foreign flag passenger ships are required by law to embark and disembark passengers in a foreign port. S. 1197 will allow Cruise America to use Seattle as a port of call for ships destined for Alaska's Inside Passage. This will not only benefit Seattle, but will also impact the surrounding Northwest U.S. region in terms of employment and tourism.

In your deliberation on this measure, we would appreciate your Committee bearing in mind both the direct and indirect benefits to be derived from S. 1197.

Sincerely,

WAYNE C. REMBOLD, *President.*

TRAVALASKA TOURS,
Seattle, Wash., September 26, 1983.

Senator TED STEVENS,
Commerce, Science, and Transportation Committee,
Washington, D.C.

DEAR SENATOR STEVENS: I am writing to you in support of S. 1197, legislation which would permit the Cunard *Countess* and Cunard *Princess* to become American cruise ships.

As President of TravAlaska Tours, a Seattle-based tour company which annually sends 5,000 vacationers to Alaska, and founder of Westours, Alaska's largest tour operator, I am particularly concerned with the lack of American ships cruising America's last frontier. Not since the demise of the Alaskan Steamship Company in 1954 has the Inside Passage cruise industry seen a major United States passenger vessel. From that date forward, there have been no American passenger ships operating in Alaskan waters until the introduction last year of the 98-passenger "Majestic Alaska Explorer" (Exploration Holidays and Cruises). All of the remaining ships are foreign registry, flying the flags of the Bahamas, Netherlands Antilles, Monrovia, England, Italy, and other foreign ports of origin.

1957 was the beginning of strictly passenger ship operations geared to the sale of package tours. My former company, Alaska Cruise Lines, Ltd., began package tours in that year with two small steamers under the Canadian flag. This was the turnaround in the passenger business in Southeast Alaska. Our success attracted other companies. In 1969 the *S.S. Monterey* entered Alaskan waters. This was a short-lived operation due to the demise of that firm. Shortly thereafter, Princess Cruises began operation with the "Princess Italia," followed shortly by the "Princess Carla." I sold my company and its four ships to Holland America Cruises in 1971. That company has continued to serve Alaska, and is introducing a new 1,200 passenger ship, the Nieu Amsterdam (Netherlands Antilles registry) into Alaskan waters in 1984. Additionally, Princess Cruises (England registry) has announced that a new 1,200 passenger ship will be introduced in this operation in 1985.

There is a long and growing list of presently foreign flag carriers serving Alaska whose total cruise revenues exceed $300 million (U.S.) a year. The foreign ships, because of the Jones Act, depart from Vancouver in British Columbia, bypassing Seattle. The resulting loss to the economy of the State of Washington is substantial, and

passengers are required to travel the additional distance into British Columbia to board their foreign flag cruise ship.

The Inside Passage cruise industry is thus substantially controlled and dominated by foreign companies.

I whole-heartedly endorse S. 1197, which would put an end to a foreign monopoly in our own waters, and provide for American owned, American flag, American manned and maintained ships. As an American corporation, this enterprise would in addition be subject to American tax laws. This bill would pave the way for a return of American ship ownership in the Alaska cruise trade.

I appreciate your consideration of this very important measure, and am hopeful that you will endorse S. 1197. Please submit this statement for the record of the hearings on S. 1197.

Sincerely,

CHARLES B. WEST, *President.*

CITY OF LOS ANGELES,
OFFICE OF THE MAYOR,
Los Angeles, Calif., September 28, 1983.

Hon. TED STEVENS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR STEVENS: The port of Los Angeles, the City's harbor, is the busiest cruise line port on the Pacific Coast of the United States. The number of passenger cruise ships calling at Los Angeles Harbor and the number of passengers aboard these vessels has been increasing steadily each year. Out port is vigorously planning to invest additional millions of dollars in facilities to better serve and accommodate these vessels.

Unfortunately, the boom in cruising has been aboard foreign flag vessels and from United States ports to foreign waters. United States cruising in U.S. waters is very limited as foreign flag companies have no authority to enter into this trade. Now, after years of investigation, an American firm plans to start a U.S. flag cruise company to enable Americans to cruise American waters and American coastlines in large modern cruise vessels. The company, Cruise America, is prepared to comply with all requirements to enable it to operate as a U.S. intracoastal cruise company, but requires enabling Congressional legislation to do so with foreign built ships. The legislation S1197, would permit the Danish-built cruise vessels, CUNARD PRINCESS and CUNARD COUNTESS, to be registered under the U.S. flag and owned and manned by Americans.

Reregistration of the ships would provide the opportunity for a range of interesting schedules to ports on the U.S. coastlines and in the Great Lakes. An increase in cruising aboard U.S. ships in U.S. waters would result in substantial employment opportunities in the areas of ship and food supply, stevedoring and port services, towage, pilotage, ship repair and entertainment. The nation also would have available, at no cost, two modern cruise ships which can be available as auxiliary hospital ships or crew transports in time of need.

Obviously, Los Angeles would share in the increase in cruise business as well as in the increase in the number of local employment opportunities.

I urge you to give your support to S1197.

Sincerely,

TOM BRADLEY, *Mayor.*

WM. HARRINGTON ASSOCIATES,
Washington, D.C., October 3, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR MR. CHAIRMAN: The City of San Diego has asked me to let you know of its support for your bill to admit certain passenger vessels to the coastwide trade.

Coastal cities, such as San Diego which already have docking facilities, would derive numerous economic benefits from your legislation. For example, the San Diego Unified Port District has indicated that it is prepared to spend several million dollars to expand and improve its piers to provide better services to cruise ships if their visits were more frequent. It is estimated that expanded cruise ship operations

could mean 500 to 600 new jobs in San Diego, and additional revenues to the city's tourist industry, because of the cruise ship traffic.

Presently, only one cruise ship, foreign-owned, makes San Diego a regular port-of-call. To be in compliance with present law the ship must get an exemption for each visit; cannot stay overnight, and cannot embark or debark passengers in the city. Clearly, neither passengers nor the city benefit from such a stop.

We understand that if your measure is approved, the Cruise America Line will home-port on the West Coast one of the two vessels specified in the legislation. This ship would cruise between San Diego and Alaska. The city would be delighted by this circumstance. We urge swift passage of S. 1197.

Sincerely,

WM. HARRINGTON.

ALAMO RENT A CAR,
Fort Lauderdale, Fla., October 3, 1983.

Senator TED STEVENS,
Senate Russell Building,
Washington, D.C.

DEAR SENATOR STEVENS: Alamo Car Rental, with its twenty-eight locations throughout the United States wishes to express its support of S. 1197, a measure by which the foreign registered CUNARD COUNTESS and CUNARD PRINCESS would become American flag, American owned, and American crewed passenger vessels. We believe this legislation will serve to foster tourism in the U.S. by promoting American cruising to American ports of call, an option not now available to the American public or the hundreds of thousands of foreign tourists who visit annually.

Alamo now has locations in many cities which Cruise American intends to service, including Los Angeles, San Francisco, Boston, Jacksonville, Palm Beach, Fort Lauderdale, Miami, Key West, Tampa, and looks forward to benefitting by the enactment of S. 1197.

Please include this statement in the record.

Sincerely,

MIKE EGAN, *President.*

DRYDEN OIL CO.,
Baltimore, Md., October 3, 1983.

Hon. TED STEVENS,
Senate Russell Office Building,
Washington, D.C.

DEAR SENATOR STEVENS: Our company founded in 1893 with plants and marketing on the East Coast, has been serving the Maritime industry over the years, and never has this industry suffered more unemployment and less revenue producing activity than today.

We have read with great interest of Mr. Robert L. Lambert's Florida based companies efforts to re-flag and trade coastwise, two Cunard cruise ships. Although we are Jones Act advocates, we feel that this Act in *No* way applies to the U.S. passenger ship trade in today's environment. We need jobs now. We need to sell our products (lubricating oils and industrial greases) to the marine trade now, and we are sick and tired of seeing the lucrative American cruise passenger trade going to foreign interest. We have not as of yet read of any rational reasons why the United States should allow this opportunity to pass, thereby further committing the cruise business to offshore companies.

We urge your support of S. 1197.

Sincerely,

LINDSAY D. DRYDEN, *Chairman of the Board.*

HOUSE OF REPRESENTATIVES,
Washington, D.C., October 4, 1983.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN PACKWOOD: Because it will create thousands of jobs and increase our military preparedness without any expenditure of federal funds, we respectfully urge you to vigorously support S. 1197, legislation introduced by Senator Ted Stevens to bring two cruise ships under the American flag, thereby enabling them to ply the U.S. coastwise trade.

Having considered its companion bill, H.R. 2883, and having listened to the arguments on both sides, we are convinced that S. 1197 will provide several thousand maritime and tourist industry jobs, with no adverse impact upon the domestic shipbuilding industry.

Currently the dollars spent in the U.S. on cruises go to foreign-flag ships operating from our ports. These U.S. dollars support thousands of foreign seamen and thousands of maintenance and repair jobs in foreign shipyards. If enacted, S. 1197 will provide an alternative to foreign-flag cruises. U.S. crews will operate the ships. The ships will be upgraded to U.S. safety and design specifications in U.S. shipyards. Repairs and maintenance will also be required to be made in the U.S. Of course, according to law, ownership of the vessels will be transferred to U.S. interests.

Because of its positive influence on the maritime and tourist industries, S. 1197 is being supported by maritime unions, U.S. shipyards, and maritime suppliers, tourist industry groups, port authorities and mayors of port cities from around the nation.

In addition to economic benefits, S. 1197 will double (from two to four) the number of vessels available to serve as troop carriers or hospital ships during military conflict. In fact, the British government used one of the vessels to transport troops during the Falkland crisis.

Following extensive hearings and after giving opponents of the legislation every opportunity to present their case, the house Merchant Marine and Fisheries Committee voted overwhelmingly to report H.R. 2883 to the House of Representatives. During mark up, opponents to the legislation offered a total of five amendments to gut the bill, and all were resoundingly defeated.

Every day, foreign-flag cruise ships operating from our ports attract U.S. tourists and U.S. dollars, employ thousands of foreign seamen, and sustain thousands of jobs in foreign shipyards. Passage of S. 1197 would be a significant step in reversing this scenario. We therefore respectfully urge your support for S. 1197.

Sincerely,

MARIO BIAGGI,
Chairman, Subcommittee on Merchant Marine.
DENNIS HERTEL,
Member of Congress.
EDWIN B. FORSTYHE,
Ranking Minority Member, Committee on Merchant Marine and Fisheries.
E. CLAY SHAW, Jr.,
Member of Congress.

OP SHIP LIMITED,
New York, N.Y., October 5, 1983.

Senator TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Commerce, Science, and Transportation Committee

DEAR SENATOR STEVENS: I am writing to express my support of S. 1197, a measure by which Cruise America Line, Inc. will be permitted to operate the Cunard Countess and Cunard Princess in our domestic coastwise trade as U.S. flag passenger liners. As you may recall, I had the pleasure of testifying before your committee on S. 1281 and S. 1365, legislation granting coastwise privileges to the Independence, Santa Rosa and the United States. I was, in addition, pleased to testify on behalf of H.R. 2883.

It is my strong belief that this important legislation offers the only realistic alternative if America is to have a viable U.S. flag passenger fleet now, and in the

future. During the testimony on both the Independence and Constitution we heard much of the same rhetoric; the imminent conversion of the Monterey and Santa Rose. Although I wholeheartedly endorse each of these projects, there is today no more justification for their proceeding than in 1979. In fact, the industry is presently suffering from overcapacity and deep-discounting, resulting in low per diems, despite high occupancies. This, of course, precludes any prospects for additional new construction, either here or abroad. It is not secret that American shipyard costs are at least 50 percent greater than most foreign yards and can not compete with the 8 percent OECD financing and heavy government shipyards subsidies. American flag ships must, of course, compete directly with foreign flag ships in the North American cruise market and therefore must be priced accordingly.

The Cruise America proposal, I believe, offers a "real" opportunity by which America may begin to rebuild her passenger fleet with "real" ships now, not sometime in the future. I urge you to lend your full support to S. 1197.

Please include this statement for the record of S. 1197.

Sincerely,

FRANK O. BRAYNARD, *Chairman.*

OFFICE OF THE MAYOR,
San Francisco, Calif., October 7, 1983.

Senator TED STEVENS,
Commerce, Science, and Transportation Committee, Merchant Marine Subcommittee, Washington, D.C.

DEAR SENATOR STEVENS: I am writing to urge you and the members of your distinguished committee to pass S. 1197, the bill to permit entry of the Cunard Princess and the Cunard Countess into the U.S. coastwise trade.

Passage of this legislation will help revitalize the American cruise ship industry and foster tourism in the United States.

Mr. Chairman, as I'm sure you have heard from other sources, ships built in American shipyards cannot be priced competitively with ships built in foreign shipyards. Since current law requires that a vessel must be built in the United States in order to operate in the coastwise trade, there are very few cruise ships operating today under the U.S. flag. Instead, we find that presently there are about ninety foreign flag ships serving the American cruising public. These foreign flag ships are restricted by U.S. law to calling at a limited number of U.S. ports and are prohibited from carrying passengers between U.S. ports.

As a result, the cruises offered today to the U.S. public are to Caribbean, Mexican and Canadian destinations. There are no cruises offered solely between American ports.

In essence, our current law operates first to grant American cruise business to foreign flag ships and second, to restrict these foreign flag cruises from calling at U.S. ports. Consequently, profits from the American cruising industry are going into foreign pockets, and potential earnings are lost to local economies of areas visited on cruises.

The San Francisco Port Commission, along with both our executive and legislative branches of local government, strongly urge that the Cunard Princess and Cunard Countess be permitted entry to the U.S. coastwise trade. We believe that allowing these large, modern ships to operate cruises between American ports will provide numerous jobs and revenues to ports-of-call, through on-shore tour programs, entertainment, and shopping by visiting passengers, and ship repair services at domestic shipyards. The cruises offered by U.S. flagships will open up new areas to cruises and will allow Americans to visit cities and areas in their own country, operating to benefit the American tourist industry as a whole.

In addition to these shoreside benefits, other economic benefits would be derived from operation of the Cunard Princess and Cunard Countess as U.S. flagships. Employment would be provided for U.S. merchant seamen. There would also be numerous purchases associated with the operation of an ocean-going passenger vessel such as fuel oil, stores and vessel repair.

Passage of this legislation would benefit American ports by providing substantial earnings to local economies of the ports visited. Finally, it would signal the return of American ship ownership in the U.S. cruise industry.

I am attaching a resolution in support of S. 1197 passed unanimously by the San Francisco Board of Supervisors.

Thank you for your consideration of S. 1197, and for your services to San Francisco.

Sincerely yours,

DIANNE FEINSTEIN, *Mayor.*

PATTERSON, WYLDE & CO., INC.,
Boston, Mass., October 20, 1983.

Senator ROBERT PACKWOOD,
Chairman, Commerce, Science, and Transportation Committee, Washington, D.C.

DEAR SENATOR PACKWOOD: This letter is to inform you of Patterson, Wylde & Company, Inc.'s support of S. 1197, a viable measure by which the American cruise fleet can immediately double in size at no cost to the taxpayer.

Patterson, Wylde & Co., Inc. is a ninety-one-year-old steamship agency located in Boston serving all ports in New England from Searsport, ME to Bridgeport, CT. We, too, have witnessed the demise of the U.S. Flag passengers industry and applaud your committee's actions to extend coastwise trading privileges to the Constitution and Independence. Unfortunately, these vessels only visit Hawaiian ports, with an occasional positionary voyage to California, and neglect the dozens of U.S. continental ports; particularly, in New England.

The Merchant Marine and Fisheries Committee, as you know, voted 30 to 10 in favor of H.R. 2883, which would enable an American entrepreneur to enter the very competitive North American cruise market with two Danish built cruise vessels. Congressman Biaggi, chairman of the Subcommittee on Merchant Marine, a strong Jones Act supporter, has endorsed this legislation and fought hard for its passage. We in the steamship business recognize the diseconomics of major U.S. passenger vessel construction and financing; particularly, for an unproven Jones Act market, and realize S. 1197 to be a meaningful first step in the revitalization of an American Flag, unsubsidized, passenger industry.

Very truly yours,

A. R. POPE,
Sr. V.P., Operations.

CITY OF PORTLAND, OREG.,
OFFICE OF THE MAYOR,
Portland, Oreg., October 21, 1983.

Hon. BOB PACKWOOD,
Chairman, Commerce, Science, and Transportation Committee, Washington, D.C.

DEAR BOB: Please include the following written statement into the Hearing on S. 1197.

At present there are a significant number of foreign flag cruise ships servicing Alaska, producing a total cruise revenue which exceeds $300m per year.

Unfortunately, because of the Jones Act, these foreign ships depart from Vancouver, British Columbia, and bypass Northwest ports. The resulting loss to economy of the states of Oregon and Washington is substantial. Accordingly, the City of Portland, Oregon strongly endorses efforts by Cruise America Line to commence U.S. flag operation using the ships Cunard Countess and Cunard Princess which would be reflagged American and carry American crew.

The City of Portland strongly endorses passage of S. 1197, to permit the Cunard Princess and the Cunard Countess to engage in the coastwide passenger trade.

Sincerely,

FRANCIS J. IVANCIE, *Mayor.*

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